POWER and ECONOMY in SUHARTO'S INDONESIA

Richard Robison

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UNIVERSITY

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Richard Robison

Introduction:

Understanding State and Capital

In the decade or so following the emergence of President Suharto's New Order, the regime was subjected to a veritable avalanche of political analysis. Not the least of those concerned with explaining the New Order were its own ideologues, notably Generals Moertopo and Hoemardani. Predictably they saw the state as transcending vested interests, reflecting national aspirations and Indonesian cultural norms. In functional terms, the New Order was argued to be the instrument of economic modernization and the necessary precursor of democracy.

Nevertheless, the production of political analysis of the New Order was primarily carried out in the academic factories of the USA, Australia and, to a lesser extent in Indonesia itself, where such activity was severely constrained by political controls. These scholarly analyses fell into several broad categories.

a) Explanations heavily influenced by Weberian notions of the transition from patrimonial to legal and national forms of bureaucratic authority: Crouch, Feith.

b) Studies influenced by cultural politics and modernization theory and Samuel Huntington's critique of these embodied in his focus upon institutional building and political order: Emmerson, Liddle.

c) Studies focused upon corporatist aspects of the New Order: Reeve.

d) Political histories of power struggles and conflicts which are not theorised in terms of their relationships to broader social and economic structure: Jenkins, Sundhaussen.

e) Studies of power and conflict informed by dependency notions of hierarchies of power and exploitation: Adisasono, Sritua Arief, Dawam Rahardjo, Arief Budiman, Rex Mortimer, Herbert Feith, Ernst Utrecht.

f) Studies focussing upon the historical continuity of the institution of state power: McVey, Anderson.

g) Studies which focus on culture and ideology in the context of broader political and class analysis: Anderson.

h) Analyses informed by cultural determination and cultural relativism; Jackson, May, Sievers.

However, with the excitement of the coup/counter-revolution and its aftermath

well behind, and Suharto apparently firmly in charge of an increasingly stable system, the flow of political works on Indonesia dried to a trickle. It would appear that the success of the New Order in eliminating public power struggles and removing high profile opponents from the scene following the 1974 Jakarta riots had convinced Western political commentators that there was nothing left to write about. Yet, in my view, a fundamental development in the nature of political power and the state in Indonesia was taking place below the surface. Not only was the state playing a central role in transforming the structure of social power, it was itself being transformed by these developments: in particular by the process of industrialization and the emergence of a strong capitalist class.

In considering the relationship between state and society, the "state" has to be understood as a concept, and an institutionalisation of power, far beyond that of "government." Let me give an example: the regular rise and fall of "governments" in Italy is not reflective of social chaos, nor is the process of governing made impossible by the political musical chairs in the Italian parliament. The Italian "state" remains stable and operative. Similarly, the fall of the Marcos government did not signal the end of the Philippine state as it has been essentially constituted for the past 40 years. What then do we mean by the term "state"?

At its broadest structuralist sense, as argued by Poulantzas and Althussar, the state may be understood as the arena of political struggle where the structure of political relationships internal to the social order are hammered out and also as the organising principle of a particular social order. The state is determined by the social order within which it exists and is an expression of class relations, from whence power emanates.[3] The problem with such definitions is that the "state" may therefore include almost anything. For example, commercial advertising not only sells products, it propagates values and ideologies essential to the legitimation of the social order, the organisation of the economy, and the dominance of certain classes. Can we consider advertising agencies an essential institutional part of the state apparatus? Such definitions also pose problems for explaining the autonomy of state action in certain situations. Neo-Weberians such as Theda Skocpol have attempted to deal with these problems by insisting on an institutional reality and set of limits for the state. She used a quote from Alfred Stepan to capture what she terms, "...the biting edge of the Weberian perspective."

> The state must be considered as more than the 'government.' It is the continuous administrative, legal, bureaucratic and coercive systems that attempt not only to structure relationships *between* civil society and public authority in a polity but also to structure many crucial relationships within civil society as well.[4]

Skocpol continues: "In this perspective, the state certainly does not become everything. Other organisations and agents also pattern social relationships and politics, and the analyst must explore the state's structure and activities in relation to them."[5] Nevertheless, in real situations, the boundaries between the state and civil

society remain confused, as do the boundaries between state and government.

As well, there has been substantial disagreement about how the relationship between broader structures of social power are related to state power: whether the state is an instrument of the dominant classes; whether its functions are constrained and impelled by the very structures of social power; whether the state apparatus embodies power in itself and to what degree it is autonomous. The difficulties of coming to terms with these questions have caused many theorists to reject the possibility of a general theory of the state and to examine the state only in the context of specific historical situations.

In purely institutional terms, the New Order state gives the appearance of autonomy. The system of representation and participation does not include meaningful elections and effective political parties, allowing the officials of the state apparatus instrumental autonomy from civil society insofar as the formal, institutional processes are concerned. But the policies and interventions of the state are not haphazard insofar as the social order is concerned. In this sense, the New Order state has clearly constituted a counter-revolution to the trends of the early 1960s, consolidating the existing social order and the dominance of the propertied classes embedded within it.

The most immediate manifestation of this related to the rural landowning classes. Although the fragmented, and generally small-scale, landowners of Indonesia did not form a cohesive block of organised social and political power, as did, for example, the major landowning families of the Philippines, they nevertheless stood at the apex of productive relations in the ricelands of Java. What the New Order did for this group was to end the challenge of land reform and social revolution embodied in the Indonesian Communist Party (PKI): to guarantee property. While it can be argued that the New Order has shown little sympathy to the landowning classes on the critical issue of rice prices, it has, on the other hand, virtually underwritten the huge investments involved in the introduction of new seed varieties, fertilisers and pesticides to the production of rice which dramatically increased productivity and income for rural producers.

My particular interest, however, became focused upon the way in which the state became involved in the industrialisation of Indonesia, playing a central role in the development of a complex and expanding capitalist class. This process was complicated by the divisions within the capitalist class itself: between foreign and domestic, indigenous and Chinese, large-scale and petty capital. To these must be added the forces pushing for an inward-looking, nationalist economy, and those pressing for increased integration into the world economy. The economic power of the state was underpinned, not only by its position as the most important single capital investor, but by its close regulation of the economy through protective policies and its control of economic activity through allocation of concessions, trade licences, contracts and access to joint venture partnerships with foreign investors. A dominating factor has also been the rise and fall of oil as a source of foreign

earnings and state revenues. During the boom period, the state was instrumental in building a significant domestic capitalist class. Although predominantly Chinese, the major domestic corporate groups which emerged in this period also included indigenous elements, emerging primarily from within the state apparatus itself: former generals and officials and their families.

The failure of scholars to recognise the political importance of an emerging bourgeoisie in an industrialising society stemmed in some cases from an adherence to theories which denied the role of the state in entrenching a particular social order with specific patterns of dominance and power. For observers from the pluralist tradition, the state simply aggregated, adjudicated, and articulated the competing demands of a host of social and economic groups, from a position transcending any vested interest. They assumed that there were no inbuilt structures of power and dominance, the rules were the same for all, and each had an equal opportunity to press their case with the government. The growth of a bourgeoisie was therefore of no special significance for the state, which was neither instrumental in its rise, nor fundamentally engaged in the protection of its interests. Instead, the secret to understanding the state (government) has been the unravelling of the byzantine factional or individual struggles internal to the state apparatus itself, or the conflict between traditional and modern modes of political behaviour.

On the radical side of the equation, the bourgeoisie was neglected for quite different reasons. In a dependent economy, it was argued, domestic capitalists and the domestic state both danced to the tune of international capital: the multi-national corporations, the World Bank, the IMF, and the international banks. Hence, the dynamic which determined political and economic priorities was to be found in the industrial metropoles while local state and capital were essentially comprador and derivative in function.

In my early writings I was primarily concerned with charting the rise of a domestic capitalist class in Indonesia, to explain its internal structures and the way in which the state played a critical role in determining them, documenting, for the first time, the growth of the major Chinese and indigenous corporate groups. It is this work that is contained in chapters one and two of this collection. These themes were further developed in my book; *Indonesia: the Rise of Capital*, which also examined in detail the political and ideological struggles which took place within both state and capital over questions of policy and patronage. Several of the themes developed in these works have, understandably, been difficult for writers of the prevailing schools to accept, for a variety of ideological, political and intellectual reasons. A particularly contentious aspect of the relationship between the state and the capitalist class in Indonesia has been the dominance of Chinese capital and the relative weakness of indigenous capital. Observers have often read this to mean that the domestic capitalist class is without power or influence: operating as little more than a milch cow for state officials. While it is true that the Chinese capitalists are unable to play a public political role, forming, for example, a political party to carry

their interests as the propertied classes did in Europe and North America, their economic and corporate interests have been consistently served by state policy and access to the resources of the state. How can this be explained? On the one hand their power is constituted in their very economic indispensibility. Without the Chinese, the networks of trade and credit the Indonesian economy would collapse. Apart from foreign capital (which is often less politically acceptable to nationalist sentiment), or state capital (now rapidly dwindling), only the major Chinese corporate groups are able to carry forward the larger industrial projects at the core of national economic strategy. However, it must be remembered that Chinese groups are also very concretely tied to the major centres of politico-bureaucrat power through joint ventures in which leading political figures and their families are equity-holders.

The importance of indigenous capital has also been underestimated, largely because scholars associate domestic capital with the highly vocal, but often declining and Muslim oriented medium and smaller capitalists. The extent to which the major political families have moved into the world of corporate capitalism is either not appreciated or not considered as indicative of a real capitalist class in the making. This is largely because many of the business generals and their families do not play an active role in management or investment decision-making. Moreover, their position is clearly reliant upon political patronage. However, to deny that they are capitalists is a moral judgement based upon an idealised vision of what it is to be a capitalist. Although these new capitalists may spend their days and nights in discotheques and not know one end of a balance sheet from another, they are nevertheless owners of capital, and hence, their new found social position is contingent upon the growth of this capital. Politically they are now more immediately appreciative of this fact. They understand what conditions are favourable to the accumulation of capital and now have a direct vested interest in seeking to establish these.

Chapter three was originally written in 1981 as an attempt (unsuccessful) to stimulate debate about the nature of the state in Indonesia and the understanding of Indonesian political history. In particular it grapples with the relationship between culture, politics and economics. In those years, the question of culture was still approached through Weberian notions filtered through structural functionalist lenses, or through fairly crude orientalist perspectives. Structuralist explanations of the relationships, and the critique of these by writers such as Thompson[6] had not entered the arena of Indonesian political writing. The tremendous energies focused upon developing theories of culture (or ideology as I prefer to call it), over the last few years by the deconstructionist French literature of the 1970s and 1980s has only now begun to influence writing on Indonesia, although conveyed by anthropologists rather than political scientists. Hence the non-debate existed at a fairly crude level.

The whole question of culture and ideology in Indonesian politics still requires

sophisticated theoretical analysis. It is however, important at a political level, to counter the way in which crude notions of culture are exploited to legitimise or justify particular forms of political rule (authoritarianism) and explain the absence of others (democracy). Indonesia, it is variously argued, is not suited to democratic political forms because the people are psychologically dependent upon strong leadership, preferring consensus rather than confrontations (here the New Order is assumed to embody consensus and Western democracy, confrontation), the Javanese psyche is not ready for democracy. Others have argued that the New Order is in fact democratic, but not in a way understood by Westerners.[7] The use of culture in this way insulates a regime from outside criticism by rendering it not subject to understanding across cultural boundaries. It defines as general national values and cultural perspectives what are in reality those of the dominant political and social forces. Appropriation of "national character" is a common political and ideological tactic of the Right, in the West as well as Asia: an obvious example being the McCarthyist attacks on "un-American" behaviour of opponents in the 1950s in the USA.

In chapters five and six I consider the question of changes in economic policy and the structure of the regime. Belied by the apparent stability on the surface, the increasing strength of Suharto and the extending control of the regime, important changes have taken place beneath the surface, deriving not from the expected sources; the students, the Muslims, or internal disputes in the military, but from a jolt to the regime's revenue base and the country's main source of foreign earnings: oil income.

The most immediate consequence of this was a shift in strategy from industrial deepening and import-substitution industrialization towards an export-oriented strategy, focused upon non-oil exports. Because industry policies also have political agendas, the shift of strategies forced by fiscal crisis had implications for the vested interests of elements within both the state apparatus and the capitalist class. The vast networks of patronage and the system of monopolies now contradicted the accumulation process in a way that could no longer be offset by oil money. For example, the need to minimise the price of imports which were to become components of exports, and thereby to increase export competitiveness, led to the reform of the customs service on the wharves of Jakarta and the progressive dismantling of import monopolies. The bureaucratic "fixers" and the monopoly holders now find themselves under considerable pressure. At the same time, the search for investment capital, no longer forthcoming from the state and unable to be supplied by domestic capital, has led to a relaxation of restrictions on foreign investment and a greater integration of investment and production in Indonesian into an internationally structured division of labour. We are seeing the beginnings of clearer definitions of the spheres of economy and the state, with the instrumental control by the alliance of bureaucrat/client capitalist being replaced with a more structural relationship between "state" and "capital" in which policy and not patronage is the focus of

struggle. Whether this will lead on to changes in the nature of the regime, including democratisation, is perhaps the question of the nineties.

Chapter seven tackles the much-asked question: why have the Southeast Asian economies, with the exception of Singapore, been unable to replicate the experiences of the so-called Asian NICs, the four little tigers; Taiwan, Hong Kong, South Korea and Singapore? In the context of a wide variety of factors I focus upon the way in which the relationship between state and capital has integrated with particular development strategies, drawing attention to the substantial political and economic interests vested in policies of import substitution industrialisation.

In the final chapter I look at the vexed issue of Australian/Indonesian relations. My main point being that foreign relations policies are substantially intertwined with the struggles between competing political groups at the domestic level. The debate about how to conduct relations with Indonesia constitutes an excellent insight into ongoing political and ideological struggles within Australia, with the Indonesia question used as yet another weapon with which to bludgeon opponents. Foreign affairs becomes, therefore, another dimension of domestic politics. The same factors are at work in Indonesia. In this particular case the Indonesians have been far more clever than the Australians in recognising and exploiting the domestic dimension of these debates to secure a negotiating advantage at the international level.

What I have intended to do in this work, at an intellectual level, is to add to such discourses as orientalism, modernization, and dependency, a discourse focusing around the relationship of state and society, which draws out the way in which social and economic power becomes embedded in the political structures and the processes of policy formation.[8] Such a discourse, which may embrace a variety of theoretical and ideological shadings, now occupies a dominant place in contemporary analysis of other societies.[9] Hopefully, by opening this discourse, there will be greater opportunities for scholars of the Indonesian scene to integrate their research with the most advanced comparative and theoretical work available: to benefit from, and influence the wider debate.

Notes

1. Soedjono Hoemardani, "Supervision of Development," *Indonesian Quarterly*, v (1) January, 1977; Ali Moertopo, *The Acceleration and Modernization of 25 Years of Development*, Jakarta: CSIS, 1973.
2. Relevant pieces by Karl Jackson, Ulf Sundhaussen, Donald Emmerson, William Liddle and Allan Samson are included in Karl Jackson's edited collection, *Political Power and Communications in Indonesia*, Berkeley: University of California Press, 1978. See also, Harold Crouch, *The Army and Politics in Indonesia*, Ithaca: Cornell University Press, 1978. Benedict R. O'G. Anderson, "The Idea of Power in Javanese Culture," in Claire Holt (ed), *Culture and Politics in Indonesia*, Ithaca: Cornell University Press, 1972. Herbert Feith, "Political Control, Class Formation and

Legitimacy," *Kabar Seberang 2, 1977*, and "Repressive Developmentalist Regimes in Asia," *Prisma*, 19, 1980. Brian May, *The Indonesian Tragedy*, London: Routledge, 1978. Julian M. Boileau, *Golkar*, Jakarata: CSIS, 1983. Rex Mortimer, (ed) *Showcase State: The Illusion of Indonesia's Accelerated Modernization*, Sydney: Angus and Robertson, 1973. David Jenkins, *Suharto and His Generals: Indonesian Military Politics 1975-1983*, Ithaca: Cornell Modern Indonesia Project, Monograph No. 64, 1984, Ken Ward, *The 1971 Election in Indonesia: An East Java Case Study*, Clayton: Monash University, Centre for Southeast Asian Studies, Papers on Southeast Asia, No. 2, 1974.

3. Martin Carnoy, *The State and Political Theory*, Princeton: Princeton University Press, 1984, Chapter 4.
4. Theda Skocpol, "Bringing the State Back In: Strategies of Analysis in Current Research," in Peter B. Evans, Dietrich Rueschemeyer and Theda Skocpol (eds), *Bringing the State Back In*, Cambridge: Cambridge University Press, 1985: 7. (citing in Alfred Stepan, *State and Society: Peru in Comparative Perspective*, Princeton: Princeton University Press, 1978: xii).
5. Ibid: 8.
6. E.P. Thompson, *The Poverty of Theory*, London: Merlin, 1978.
7. Perhaps the most extreme recent piece of this type is: Nathan Keyfitz, "The Asian Road to Democracy," *Society*, 26 (1) November, December 1988: 71-76. Not surprisingly this draws heavily on the work of Lucian Pye.
8. Two extremely valuable and challenging Ph.D. theses have used detailed case studies of the processes of policy formation to probe some of the theoretical questions raised in this discourse; see: Andrew MacIntyre, *Politics, Policy and Participation: Business-Government Relations in Indonesia*, Australian National University, 1989; Ian Chalmers, *Economic Nationalism and the Third World State: The Political Economy of the Indonesian Automotive Industry, 1950-1984*, Australian National University, 1989.
9. See for example: Alice H. Amsden, "The State and Taiwan's Economic Development" in Evans, Rueschemeyer and Skocpol, op cit: 78-106. Nora Hamilton, *The Limits of State Autonomy: Post-Revolutionary Mexico*, Princeton: Princeton University Press, 1982. Peter B. Evans, *Dependent Development: The Alliance of Multinational, State and Local Capital in Brazil*, Princeton: Princeton University Press, 1979. Frederic C. Deyo, (ed) *The Political Economy of the New Asian Industrialism*, Ithaca: Cornell University Press, 1987. Nigel Harris, *The End of The Third World: Newly Industrialising Countries and the End of an Ideology*, Harmondsworth: Penguin, 1986. Garry Rodan, *The Political Economy of Singapore's Industrialisation: National State and International Capital*, London: Mac Millan, 1989. Kevin Hewison, *Power and Politics in Thailand*, Manila: Journal of Contemporary Asia Publishers, 1989.

PART I: STATE AND CLASS

Chapter 1
Toward a Class Analysis of the Indonesian Military Bureaucratic State

Contrary to the expectations of modernization and developmentalist theorists, the historical experiences of Europe and North America have not been reproduced in the postcolonial societies of the Third World.[1] The spread of capitalism has not been accompanied by the emergence of liberal democratic bourgeois states. Instead, the development of capitalism has resulted in the growth of military bureaucratic states.

Nowhere are these developments more clearly illustrated than in the case of Indonesia. Since the formal transfer of sovereignty in 1949 and, in particular, with the acceleration of large-scale foreign corporate investment that began in 1967, the entrenchment of the military bureaucratic state has been intensified. Explanations of the formation of elites and of the state in Indonesia have generally been based on such factors as ideology, political culture, or the structure of palace politics. It is my contention, however, that a more fundamental explanation lies in the capitalist transformation of the Indonesian economy.

While it is true that the ownership of capital in Indonesia resides primarily with foreigners and a domestic Chinese bourgeoisie, neither group can aspire to the position of ruling class in the full social and political meaning of the term. We must therefore turn our attention to the structure of *asli* social and political power, above all in New Order Indonesia. I will argue that capitalism has produced four distinct types of bourgeoisie in contemporary Indonesia and that power struggles under the New Order reflect the competing interests of these groups.

First, there is an asli (Muslim) merchant bourgeoisie concentrated in small-scale trade and commodity production. The product of an earlier, merchant capitalism, this bourgeoisie has remained on the periphery of asli political power since the 1920s. Its economic base has steadily declined with the rise of capital- and technology-intensive foreign investment in mining and import substitution manufacture.

Second, an alliance of civil bureaucrats, students, and intellectuals has emerged, largely as the product of the development of a regularized, "legal" state capitalism. The social and political power of this alliance has depended upon the extension of the state sector, which provides special opportunities for technocrats, planners, managers, and associated intellectuals. Most recently, this group has suffered difficulties as the development of state capitalism foundered on the neopatrimonial nature of the bureaucratic state and its integration with foreign and Chinese capital.

Third, the military bureaucracy, from the national to the regional level, has secured a base of economic power deriving not from private ownership of capital but from the appropriating power of bureaucratic office which enables particular factions and commands to control access to the market. I will refer to this military power-group as bureaucratic capitalists. Occupying the key centers of political power within a neopatrimonial mercantilist state, they have been able to secure a share of the profit generated by foreign and domestic Chinese capital.

Finally, a client asli bourgeoisie has emerged, outside the bureaucratic apparatus, but dependent on it and on foreign capital.

Having delimited these four groups, I will now consider the history and character of each in more detail.

The Decline of the Muslim Merchant Bourgeoisie

It is best to deal first with the decline of the traditional Muslim trading, commodity-producing, and land-owning bourgeoisie because scholars once quite widely assumed that it would be stimulated by the accelarated expansion of the capitalist economy. Much of the research concerning the social and economic structure of postcolonial Indonesia has attempted to grapple with the failure of these expectations.[2] While the preferred explanations involve supposed cultural obstacles to the full acceptance of the capitalist revolution, closer analysis suggests that the decline of this merchant bourgeoisie is a direct structural consequence of the type of capitalism which has been imposed upon Indonesia.

Throughout the colonial period, Dutch power secured for the Dutch trading houses and, later on, banks, estates, and shipping and mining companies, effective monopolies in international trade and large-scale investment. Chinese merchants were cultivated as intermediaries for the domestic Indonesian market. This structure excluded the asli merchant bourgeoisie who, without the protection of the state, remained locked into small-scale trading and commodity production in rural areas and small towns, and who fought a largely unsuccessful rearguard action against the incursions of Chinese capital, particularly in the fields of textile, *batik*, and *kretek* production.[3] Their continuing economic decline in the early decades of the twentieth century was paralleled in the political sphere with the disintegration of the Sarekat Islam, which initially represented their nationalist and anti-Chinese sentiments. From the middle 1920s, the nationalist movement fell increasingly under the

domination of secular politicians originating in the *priyayi* administrative class and intellectually shaped by Western liberalism or Marxism.[4] The asli Muslim bourgeoisie never regained its initial political edge during the colonial period and fared no better after Independence.

For although the Dutch were unable directly to retain political power after 1949, they continued to exert heavy influence on Indonesia's economy and political life. Together with the Chinese, they continued to dominate investment in the medium- and large-scale sectors of the economy. The asli merchant bourgeoisie commanded neither the economic nor, more importantly, the political power to enable them to replace the Dutch. Political power was secured by secular elites whose power base lay initially within mass-based parties and, from 1957 onwards, increasingly within the military.

The political parties which led the governments of the early 1950s, while formally espousing ideologies of a socialist and nationalist character, quickly came to the conclusion that any rapid move from a colonial to a national economy would create disruption on a scale that they could not manage and thus were unwilling to confront.[5] Where they did attempt to indigenize some sectors of the economy, they did so by developing state capitalism rather than by seriously supporting any asli entrepreneurial bourgeoisie. The Benteng program of 1950-55, which sought to protect and subsidize asli businessmen through preferential allocation of import licenses, did nothing to develop a powerful asli bourgeoisie because, indeed, that was never its real objective.[6] Licenses, state bank credits, government contracts, and other concessions were seen by virtually all political factions as the spoils of power. They were not allocated to the asli business community according to publicly formulated and *economic* criteria for eligibility, but were distributed to "business groupings" on the basis of political association. Consequently, the vast majority of Benteng importers were political clients rather than members of a preexisting asli merchant bourgeoisie. Many, indeed, were simply license brokers who sold their politically derived concessions to Chinese and foreign businessmen rather than using to establish genuine business ventures.[7]

A few of the asli merchant bourgeoisie did benefit from the Benteng policy. Men like Dasaad, H. A. Ghany Aziz, Rahman Tamin, and Djohan Djohar rose to national prominence with the protection and subsidies they secured from the state.[8] Their success, however, was achieved not by business skills so much as through alliances with those with power to allocate concessions. And because political factions rose and fell from power with great rapidity, the situation of asli importing groups was one of chronic insecurity.

From 1955 on, the position of the asli bourgeoisie worsened. The Benteng policy was discontinued, and the group's main sources of political protection—the Masjumi party, the PSI (Indonesian Socialist Party), and the right wing of the PNI (Indonesian Nationalist Party)—lost influence.[9] When Sukarno began his attempt to build a national economy in 1957, he turned to state capitalism as the most

appropriate policy instrument.[10]

While the turn towards state capitalism was reversed under the New Order, the asli merchant bourgeoisie did not benefit from the renewed emphasis on the private sector. The economic strategies of the New Order technocrats aimed at maximum economic growth through the infusion of large-scale foreign capital and technology.[11] The foreign investment law (Peraturan Modal Asing, PMA), introduced in 1967, gave generous tax and import duty concessions to foreign investors and quickly allowed foreign capital to dominate the fields of forestry, mining, and import substitution manufacture.[12] The policymakers opposed any policies of subsidy and protection for asli businessmen, since they assumed that the infusion of foreign capital and technology would flow down to asli producers and stimulate their development through the market. In fact, the opposite occured. There has been a significant movement of large-scale Chinese and foreign capital into sectors which were traditionally the main preserve of asli merchants, such as batik, textiles, beverages, foodstuffs, and kretek cigarettes. The Domestic Investment Law of 1968 (Peraturan Modal Dalam Negeri, PMDN), designed to rectify the damage inflicted on domestic investors by the Foreign Investment Law of the previous year, in the end largely benefited the Chinese business community. Because its provision applied only to new investments, it did not assist the majority of asli merchants and commodity producers whose capital was largely tied up in stock and plant who, with no access to foreign sources of capital, had been hard hit by the policies of financial retrenchment introduced between 1965 and 1968.[13] It is generally estimated that the asli share of investment under the Domestic Investment Law is about 25 percent and that the share of this actually held by the old asli bourgeoisie is decreasing.[14]

Although the New Order authorities emasculated preexisting autonomous asli business groupings and operated the only officially sanctioned business association, Kadin, virtually as a government department, the disintegration of asli business enterprise, especially in the fields of textiles, batik, foodstuffs, and kretek, generated considerable political unrest. The government was therefore reluctantly forced to introduce some measures of protection. In 1970 and 1971, government agencies were established to insure that bank credits be given to asli businessmen and to provide investment credit and advice where the applicant would not normally be eligible for bank loans.[15] Following the disturbances of January 1974, the government introduced measures requiring foreign investors to take only asli partners in joint ventures and reserving state bank credit for asli businessmen.[16] Yet, as in the case of the Benteng policy, the asli who have actually benefited from this virtual monopoly on state bank credit and joint venture partnerships have been officials and their clients. Regulation introduced in 1974 to transfer equity in joint ventures from foreign and Chinese partners to asli counterparts have proved basically unworkable, simply because the capital is not available.[17]

Traditional asli merchants and commodity producers confront two major sources of economic and political power in contemporary Indonesia. First, they face

the economic planners of the New Order, who, continuing the technocratic traditions of the PSI and the right-wing PNI planners of the 1950s, are primarily interested in maximizing economic growth. In their view this is best induced by foreign capital investment and the infusion of foreign technology rather than by protection and subsidy of an asli bourgeoisie lacking sizeable capital and up-to-date technology and corporate organization. Because of their axiomatic assumption that foreign capital investment ought to stimulate asli business, the accelerated collapse of asli enterprise has been interpreted as the result of cultural resistance to capitalist penetration rather than an inherent structural consequence of foreign investment itself. Accordingly, the technocrats have devoted little attention to structural protection of asli business or to accomodating their development strategies to the potential of asli capital. Instead, emphasis has been placed on establishing educational programs designed to provide asli businessmen with management skills and the proper entrepreneurial values and attitudes.[18]

Second, they are up against the politico-bureaucratic elites, who have appropriated the bulk of the available licenses, contracts, credit, and other concessions to further their integration with foreign capital as importers and joint venture partners. As early as 1958, H.O. Schmitt drew attention to the conflict between the Outer Island export-oriented traders, whose interests lay in deflationary policies, and the bureaucratic importers on Java, whose interests lay in inflation.[19] In New Order Indonesia, the interests of these two groups clash again over the question of foreign capital. While the decline of asli commodity producers (exporters) is accelerated by the penetration of capital-intensive foreign and, to a lesser extent, Chinese investment, powerful factions and families within the politico -bureaucratic elite benefit from this process as (largely importing) joint venture partners.[20]

The largely Muslim asli merchant bourgeoisie have, in a very real sense, been overtaken by history. They are the victims of the penetration of foreign and Chinese capitalists with overwhelming financial and technological resources. They are also the victims of a tradition of politico-bureaucratic power (originating in the precolonial agrarian kingdoms of Java) which has successfully integrated itself into the neocolonialist structures of post-1949 Indonesia.

State Capitalism

It will be remembered that the early economic policy makers of the PSI, the PNI, and the Masjumi were all to some extent influenced by socialist ideals. Although many of these ideals were diluted when these leaders were faced with the practical difficulties of dismantling a colonial economy, they were never entirely abandoned. In their search for ways to break the Dutch economic stranglehold, however, they turned less to the asli bourgeoisie than to the national state itself as a means of establishing some degree of economic autonomy. Between 1949 and 1957, a state-owned central banking system was established, and some state corporations began operating in the fields of trade and manufacture. Finance Ministers such as Sumitro

and Iskaq were particularly active in using the power of the state to increase national control of strategic sectors of the economy.[21] This tendency rapidly increased in the period of Guided Democracy.

Following the nationalization of Dutch corporate holdings in Indonesia in 1957-58, state corporations were established to take over the confiscated Dutch interests in shipping, agricultural estates, trade and, to a lesser extent, manufacturing. State capitalism became the central focus of the Indonesian Guided Economy.[22]

But with the overthrow of Sukarno and the establishment of the New Order of General Suharto after 1965, there began a major withdrawal from these policies. The American-trained economic strategists of the New Order moved to reestablish the preeminence of private enterprise and foreign capital investment. By 1975, foreign corporations were once again dominant in mining, forestry, and, increasingly, in the import substitution sector, especially textiles.[23]

Nonetheless, several state corporations continue to sit astride strategic economic sectors. These include Pertamina (oil), Aneka Tambang and Timah (mining), Perkebunan (agricultural estates), and Gresik, Gaya, and others in the field of manufacturing. There appear to be two major reasons for their survival. First, the Bappenas planners still retain something of the old PSI approach in that they regard the participation of the state in strategic sectors of the economy as essential to the national interest. Second, many of the state corporations had become the economic fiefs of particular military-bureaucratic cliques, and the generals naturally refused to relinquish them.[24]

Bureaucratic Capitalism

The relationship between the bureaucratic state and capitalism can only partly be explained by the development of state capitalism. A more important factor has been the development of a phenomenon which will be referred to as bureaucratic capitalism. While state capitalism is the product of "rational" or "legal" bureaucratic authority (the officials involved are bound by a legal framework and do not appropriate the means of administration), bureaucratic capitalism is a product of patrimonial bureaucratic authority in which the demarcation between public service and private interest is at best blurred.

Patrimonial bureaucracy in Indonesia has its origins in the pre-colonial Javanese kingdoms, where the king distributed appanage benefices to supporters, clients, and family. Bureaucratic office was itself an appanage which entitled the officeholder to make use of the office for private political and pecuniary ends.[25]

Such a system has been easily adapted to the capitalist environment of postcolonial Indonesia.[26] Modern appanages take the form of bureaucratic offices distributed among civilian and military factions in the various governments. The most lucrative of such appanages are those offices with the power to allocate oil drilling leases, mining leases, forestry concessions, import and export licenses, government contracts for construction and supply, and state bank credit.

Bureaucratic capitalism was initially intimately associated with the growth of state corporations. When Dutch corporate interests in Indonesia were nationalized in 1957-58, most were put under military supervision. The military-dominated state trading companies virtually became agencies for the allocation of import licenses and distributorships to Chinese or foreign importers, who continued in practice to dominate the import sector.[27] The new economic power of the military lay in controlling legal access to the market through state monopolies on various sectors of economic activity. The economic function of the military men running these enterprises was to generate finance for the political survival of factions, families, and even governments.

One of the major sources for such bureaucratic capitalism under the New Order has been the state oil corporation Pertamina. Although nominally a state corporation operating under ministerial control in pursuit of government policy, Pertamina was in fact until 1975 a fiefdom controlled by a military officer directly responsible to the President in pursuit of a variety of nongovernmental interests. Pertamina has only marginally been engaged in actual drilling. Instead, it has acted primarily as the authority allocating drilling leases to foreign companies. This combination of monopoly and lack of public accountability allowed Pertamina's directors to divert vast amounts of revenue from the state to the various military factions, in this way playing a central part in building the New Order power structure.[28]

Like Pertamina, Bulog has also been dominated by military officers responsible only to Suharto and has been concerned essentially with controlling access to the market. It is the sole purchaser of basic food commodities from both overseas and domestic sources and is the allocator of domestic distribution of these goods.[29]

On the whole, however, the rise of the New Order has made the private corporation the focal point of investment and production; and the dominant politico-bureaucratic groups quickly established private companies as a means of enriching themselves. The largest of these "private" empires are:

Group	Company
Department of Defense (Hankam)	P.T. Tri Usaha Bhakti
Military Commands	INKOPAD (Army)
	INKOPAL (Navy)
	INKOPAK (Police)
	INKOPAU (Air Force)
Army Strategic Reserve (Kostrad)	Yayasan Dharma Putra
Special Operations (Opsus) associated groups	Pan Group
	Pakarti Group
	Berkat Group
Siliwangi Division	P.T. Propelat
Department of Interior	P.T. Poleko[30]

Many of the directors and commissioners of the companies in these groups are men who were formerly, or indeed still are, senior officers within the finance-and-economy sections of particular military commands (Finek).[31] Part of their function is to channel the funds raised through their businesses to sustain existing politico-bureaucratic power-structures.

A variant form of bureaucratic capitalism involves the ownership of private companies, not by military commands, but by the families of powerful public figures. The most prominent of these business groups are those of the families of President Suharto, Sultan Hamengku Buwono, and General Ibnu Sutowo.[32]

Unlike state capitalism or the capitalism of private entrepreneurs, which are generally devoted to the accumulation and productive investment of capital, bureaucratic capitalism is devoted to raising funds for directly political purposes. In a situation of intense competition for power between factions of the ruling military oligarchy, each must have access to its own sources of finance to bridge the gap between regular budgetary allocation and actual political need.[33] In this sense, such bureaucratic capitalist activities parallel the front organizations and newspapers controlled by such centers of power as Hankam, Opsus, Bakin (State Intelligence Agency), and the Presidential Palace.[34] (Needless to say, the opportunities for the accumulation of massive personal wealth are also a major incentive for powerful officials to engage in economic activity, as is demonstrated by the extravagant life styles of high-ranking military officers and their families.)

Because the bureaucratic capitalists seldom have the capital, technology, know-how, or even the intention of becoming directly involved in investment and production, they must necessarily ally themselves with actual entrepreneurs, usually foreign or Chinese but occasionally asli. The terms of such alliances are an exchange of access to the market for a share of the product. These alliances work not through public policy channels but through direct ties between particular center of politico-bureaucratic power and particular business groups. The private business empires mentioned above are the instrumentalities of such alliances.

On a more specific level, what have been the institutional forms of this bureaucratic capitalism? One form, developed early on, has been monopoly control over segments of the import sector. Probably the most significant example of this form has involved the import of automobiles. In the 1950s, and early 1960s, the party factions which, at various times, secured control over the Department of Trade, and consequently over the allocation of agency licenses, allocated sole agencies to client businessmen such as Hashim Ning, Dasaad, Haji Abdul Ghany Aziz, the Lubis family, Suwarma, and Panggabean.[35] Under the New Order, however, the power centers have not allocated these agencies to clients but have, instead, established their own sole agency companies, often using Chinese partners as the actual operators. For example, Kostrad now owns the Volkswagen agency through its Yayasan Dharma Putra business group in partnership with the Chinese businessmen Sjafief Margetan and Sofyan Wanandi (Liem Bian Koen).[36] Ibnu

Sutowo owns the Mitsubishi agency Krama Yudha and is a partner with Hashim Ning in National Motors.[37] In addition, he is a partner with Mercedes Benz in the Mercedes import, assembly, and distribution agencies P.T. German Motors and P.T. Star Motors.[38] The President's brother Probosutejo, is a part owner of the importer and distributor, P.T. Multi France Motors.[39]

More recently, however, import monopolies have been eclipsed to some extent by other forms of monopoly, notably lumber concessions. These concessions have been distributed among the various center of politico-bureaucratic power, primarily the military commands. Thus the Hankam business group P.T. Tri Usaha Bhakti, in partnership with the business groups of particular regional military commands, controls at least fourteen concessions and timber companies. Others are owned by Kostrad, P.T. Poleko, the Presidential Palace, the Ibnu Sutowo family, and other assorted military groups. In every case the concession-holding company is established with minimal capital investment, rarely exceeding Rp. 5 million (about US $12,500). The concessions are transformed into operational companies only with the infusion of foreign and Chinese capital, which generally lifts the investment to the level of Rp. 1,000 million and above.[40] This represents an Indonesian contribution on the order of 0.5 percent. Yet typically, the military concession-holders end up with a 20-25 percent interest in the operational logging company. The central feature of the joint venture is the exchange of politically controlled economic concessions for financial reward. Analysis of the major joint ventures involving asli partners reveals that the typical joint venture involves an asli shareholding of between 10 and 25 percent, with the asli partner usually a general or a member of a prominent political family. In his study of Japanese corporate investment in Indonesia, Yoshi Tsurumi concluded that 28 out of 30 asli partners were selected for their contacts within the government and that the equity of local partners in the larger ventures had been financed by the foreign partner.[41] Many Indonesians have been scathing in their criticism of the role of asli partners and asli capital in joint ventures. Even the conservative *Business News* commented that:

> ...the participation of local employees and capital in the joint venture should be a real fact and not merely a mask. The danger of shammed joint ventures is quite real, particularly if Japanese or local entrepreneurs wish only to look for the short term profits. Short-sighted Japanese entrepreneurs are quite happy because they have their own way of doing business, paying handsomely their local puppets. These local puppets have nothing to complain of; enough salary, living among high circles, known as local partners without doing any work. The losers are the general public who pay all the costs, just to enrich a small group of persons without creating any possibilities for the emergence of bona fide entrepreneurs in the future.[42]

Indeed, the asli partner, the bureaucratic capitalist, has no concern with the productive accumulation of capital. Consequently, he does not constitute a challenge either to the neopatrimonial state or to the domination of an undeveloped economy by foreigners and Chinese bourgeoisie; rather, he is essential to the survival of both.

It may be useful to illustrate this notion of bureaucratic capitalism by looking at the historical development of one particular, but very typical, bureaucratic capitalist group—the circle of the Suharto family.

President Suharto's business associations date back to the late 1950s, when he was commander of the Diponegoro Division. At that time the Division established a partnership with Chinese businessmen in the shipping companies P.T. Panggerang and P.T. Dwi Bhakti.[43] The then Major Sudjono Humardani, from the Division's finance-and-economy section, served as official shareholder. Following his transfer to Kostrad in the early 1960s, Suharto became associated with the Kostrad business group, Yayasan Dharma Putra, together with his fellow officers Suryo and Sofyar.

While the early business activities of Kostrad involved the distribution of trading concessions in West Irian, Yayasan Dharma Putra moved into the field of joint ventures after 1965. The hub of Kostrad operations today is the Bank Windu Kencana, in which shares are held by Kostrad officers, while the operations are conducted by the Kencana group of Liem Sioe Liong. Other ventures include a logging company, an airline, a trading company, and an automobile import agency in partnership with Chinese businessmen of the Mantrust and Opsus groups.[44]

Suharto, however, moved on to become associated not only with Kostrad's business empire, but with a family empire of his own, the so-called Cendana group. This empire is essentially a nexus of junior partnerships in joint ventures with Chinese and foreign businessmen. The most important alliance exists with Liem Sioe Liong and his Kencana group which since 1965 has had the "good fortune" of obtaining the credit and licenses necessary to establish companies in banking, logging, trade, crumb rubber, flour milling, and cement.[45] An illustration of the mechanics of these relationships is provided in the case of P.T. Bogasari, a Liem company which secured a monopoly position in flour milling and distribution for West Java together with credit of Rp. 2,800 million, although its initial capital was only Rp. 100 million.[46] In return, Liem's political patrons were well rewarded: the President's stepbrother, Sudwikatmono, was given the position of Senior Director and 4 percent of the shares, while 28 percent of the profits of Bogasari were to be divided between Kostrad's Yayasan Dharma Putra and Mrs. Suharto's Yayasan Harapan Kita.[47]

Apart from Sudwikatmono, who holds shares in a wide range of Liem companies, other members of the Suharto family including the President's brother, Probosutejo, and Mrs. Suharto's brothers, Bernard Ibnu Hardoyo and Benny Jonosiswono, have shareholdings in a variety of foreign and Chinese companies. In each case the nature of their relationship to the companies appears to be similar to what we seen in the Bogasari model. Probosutejo also owns P.T. Mercu Buana, a company built on a lucrative official monopoly of clove imports.

The pattern illustrated in the Yayasan Dharma Putra and Cendana cases is replicated elsewhere, notably in the business empires of Sultan Hamengku Buwono

and General Ibnu Sutowo. Minority shareholding in the joint ventures with Chinese partners is the dominant form of such business activity; the companies thus formed invariably enjoy privileged access to state contracts, import and forestry concessions, and other monopolistic advantages. In these cases, too, the relationship between Chinese business groups and their political patrons, i.e., between Ibnu Sutowo and Tong Djoe, and Sultan Hamengku Buwono and Djamzu Papan, extends back several years. [48] In general, the fortunes of Chinese business groups have tended to rise and fall with those of their patrons; several of the major *cukong* (Chinese financiers) of New Order Indonesia were, previous to 1965, of regional rather than national importance, many of them coming from Semarang and Medan, where they were associated with either the Diponegoro Division or Kostrad.

An important question to be raised here is whether the movement of the families of powerful officials into business represents the beginnings of a consolidated ruling *class*. Will these families retain economic power after they lose control of political office and, consequently, of the power to allocate concessions of various types? Are they in the process of transferring their base of power from bureaucratic office to ownership of capital? For the most part the answer must be that they are not. Their business empires, as described above, remain nets of minority shareholdings in joint ventures in which their role is strictly political, and thus can not be sustained after loss of office. They will be of no value to joint venture partners once they are unable to mobilize licenses, credit, contracts, and other concessions.

There is some evidence, however, that the major families are now able to mobilize considerable amounts of privately owned capital. To the end of 1972, over Rp. 250 billion of investments had been made under the "capital-whitening" scheme whereby no explanation of the source of funds is required.[49] Capital-whitening is a deliberate attempt to direct illegally accumulated money into productive investment. While much of this money may be that brought back into Indonesia by Chinese businessmen, it is reasonable to assume that the regulations have also been used to invest money derived from the exploitation of office.

There are several well-known examples of investments by the major families and their clients financed by the private capital resources of prominent officials. One case is that of the P.T. Semen Cirebon cement works of the Suharto family client, Sukamdani Gitosarjono, who was able to demand and secure a 75 percent personal shareholding in a Rp. 18,000 million investment.[50] The Sultan's client, Teuku Daud, as well as Ibnu Sutowo and General Baramuli of the Poleko group, also fully own several substantial companies.[51] However, the focus of capital investment in fully owned companies has been primarily in real estate. This tendency is logical enough. Fall from office will not affect ownership of real property since retention of such property is not dependent on continuing control over allocation of concessions, nor does it involve reinvestment or production. The big families have moved into urban property and hotels in a substantial way just as they have, on a smaller scale, also moved into the purchase of private luxury homes, of resort housing, and of riceland

in rural Indonesia.[52] Thus, while these families may only have access to finance and control over concessions for the period during which they hold power, and therefore may enjoy only brief periods as joint venture partners, they are trying to build a long-term base of power for themselves upon land and property ownership. In doing this, however, they are constituting not a new bourgeoisie but a new class of rentiers. They are not challenging the dominance of foreign nor Chinese capital in trade, mining, or manufacture, but have become the main beneficiaries of the new opportunities for property speculation created by the expansion of capitalism.

Client Capitalism

A fourth form of asli business activity may best be described under the rubric of client capitalism. This form of enterprise involves individuals who have patrons in the politico-bureaucratic power group but do not themselves hold power or office. Like the bureaucratic capitalists, client business groups rely heavily on concessions and administrative monopolies. The major Chinese business groups associated with Sutowo, Suharto, the Sultan, Opsus, etc., are classic examples of such client capitalism. Several of the major client business groups, however, are asli.

But asli client capitalists have not achieved a really significant social and economic position for three basic reasons. First, the great bulk of politically controlled concessions have gone to foreign and Chinese business groups. Particularly under the New Order, bureaucratic capitalists have preferred to link themselves with foreign and Chinese capital and through joint ventures.[53] Second, most clients have preferred to become brokers of concessions rather than using them as a form of capital on which to base a productive business structure. Given the unstable nature of power in Indonesia it is perhaps natural that opportunism and the search for quick profits should be preferred to long-term investment. Third, the fall of a patron is devastating to the asli client because in such cases the relationship between power and business is essentially personal. Although similar relationships exist between political patrons and foreign and Chinese business groups, the latter have independent sources of capital and independent control over trading and financial networks and thus may survive the fall of patrons. (They may indeed be sought out by the new power-holders).

Client capitalism emerged first in the early 1950s, when political parties and factions exploited cabinet office to allocate licenses, concessions, and credit to asli businessmen associated politically with them. I have described earlier how established businessmen like Dasaad, Aziz, and Tamin expanded their business empires with the aid of privileged access to import licenses. In his work on the kretek industry, Castles aptly describes how the established manufacturers' association secured the clove import monopoly through the influence of Masjumi in the Cabinet.[54] Similarly the Batik Producers' Cooperative, GKBI, enjoyed a monopoly on the import of cambrics in the period of Masjumi ascendancy.[55]

The vast majority of clients, however, were not established businessmen but

simply political or family associates. While several of these, including Sudarpo, Kusmuljono, Hashim Ning, and Zainul Abidin, utilized politically derived concessions to establish genuine business enterprises, most simply sold their concessions to Chinese and foreign business groups. They became, in essence, brokers or fixers.

Until 1965, such client capitalists were sustained chiefly by monopolies of import licenses, used to establish sole agency associations with foreign manufacturers. By the late 1950s, for example, PNI clients had secured a notable share of the most lucrative prizes within the import sector. Kusmuljono held the Krupp and De Havilland agencies, among others; Aziz, the International Harvester agency; and Dasaad, the Fiat Agency. Of the PSI clients, Hashim Ning had secured the Chrysler agency, while Sudarpo received several government import contracts.[56]

Under Guided Economy the picture change somewhat. While Dasaad and Hashim Ning managed to maintain ties with the centers of power and even expand their collections of import monopolies, many former party client capitalists were eclipsed and the concessions they had held were transferred to newly emerging clients of the Presidential Palace. Markam and Aslam now dominated trade in rubber and other agricultural products. Panggabean and Suwarma secured the Volkswagen and Mercedes agencies. Bram Tambunan obtained a dominant position in the import of tires and textile machinery.

The fragility of the client system was clearly demonstrated by the fall of Sukarno and the emergence of the military government of Suharto. Old centers of patronage collapsed, and new forces moved in to control the various bureaucratic offices and thereby the power to allocate concessions. The trading empires of Aslam and Markam were handed over to the newly formed military trading company P.T. Berdikari.[57] Another military business organization, INKOPAD, received the confiscated assets of Jusuf Muda Dalam and the P.T. Fiat Bluntas group.[58] The Mercedes agency was transferred from Suwarma to P.T. Berdikari and, upon the collapse of that group, to Ibnu Sutowo. Panggabean's Volkswagen agency, P.T. Piola, is now held by the Kostrad business group, Yayasan Dharma Putra. As well as losing their business assets, several major clients of the Guided Democracy period, including Aslam, Markam, Mardanus, and Bram Tambunan, were —like the major patrons (most notably Jusuf Muda Dalam)—either jailed or exiled.

Up to 1965, the relationship between patron and asli client was typically one in which licenses and concessions were allocated by patrons in return for money to underpin party and factional power. This is quite clear from evidence which came to light in the trials of Iskaq Tjokroadisurjo in the late 1950s and Jusuf Muda Dalam in 1966 and 1967.[59] After 1965, the emergence of the joint venture, which provided opportunities for power-holders to associate directly with foreign or Chinese business, seriously hurt the asli broker. Most of the established asli client capitalists, especially those with origins in Sumatran Muslim entrepreneurial groups, either collapsed or stagnated. The Dasaad group is the most spectacular example of this change. Though Aziz still expanded his operations, he lost the big International

Harvester agency. Several other businessmen who operated fully owned industrial enterprises up to 1965, most notably Rahman Tamin, have been forced to seek foreign partners to survive. Almost all of the surviving asli client capitalists, including Harlan Bekti, Machdi, Zainul Abidin, and Widodo Sukarno, today function primarily as collectors of minority shareholdings in joint ventures.[60]

Although the generals of the New Order have typically preferred Chinese to asli clients and have presided over the rise of such important Chinese clients as Liem Sioe Liong (Kencana), William Suryajaya (Astra), and Panglaykim (Pan Group), some new asli client groups have emerged. The Cendana client, Sukamdani, has enjoyed access to credit and financing on a scale which has lifted him from a minor business figure to the head of an empire which includes a Rp. 6,400 million hotel and a 75 percent share in a Rp. 18,000 million cement plant.[61] Former PRRI/Permesta officers, led by Nicolas Sumual, have built a major business group. P.T. Konsultasi Pembangunan, around privileged access to forestry concessions and construction contracts.[62] Clients with important patrons are also much sought after by foreign investors as joint venture partners in a wide variety of enterprises, particularly in contracting and property.[63]

One of the most interesting examples of asli client capitalism is that of Pertamina's contractors. These include Siswono Judo Husodo, Fahmi Idris, Suryadharma Tahir, Ponco Sutowo, and several other sons of prominent officials.[64] Their businesses are based upon access to Pertamina construction contracts awarded without tender. An insight into their operations is provided by the renegotiation of contracts following the downfall of Sutowo in 1975/76. It transpired that many of the contractors were in fact dealers in contracts, subcontracting to Chinese companies who carried out the actual work and provided the capital. It was also evident that much of their profits derived from the organized padding of contracts by Pertamina officials.[65] Such a situation is reminiscent of the Benteng experience except that contracts have replaced import licenses as the commodity of brokerage.

As business in Indonesia has become increasingly structured around alliances between asli politico-bureaucratic leaders and foreign or Chinese capital, the role of the asli client businessman has been to try to find a secure, if marginal, niche. Realizing that he is both dependent and dispensable, and that he can survive only by constant reaccommodation to changing political circumstances or by total integration with foreign or Chinese capital, he tends to seek short-term, high profit speculative gains while his good political fortune lasts.

Conclusions

The preceding analysis has shown that the power configurations among the ruling groups in Indonesia are related to the type of capitalism that has developed there. The generals must be understood as an integral component of that foreign-dominated capitalism. Not only are they bound to foreign and Chinese business groups in joint ventures and other less formal arrangements, but they preside over

policies which guarantee the interests of their corporate partners. It is a relationship which, on the one hand, generates money for the political survival of the military bureaucracy and, on the other, provides foreign and Chinese business with access to lucrative markets and sources of cheap raw materials.

Bureaucratic capitalism has not generated a new independent asli bourgeoisie but is rather the means for sustaining a military bureaucratic state and providing the officeholders of that state with patronage for themselves, their families, and the political factions to which they owe their authority. Conflict among generals is therefore not only concerned with personalities and policies, but rather with the struggle for control of such lucrative appanages as Pertamina, Bulog, and Perhutani (forestry), and such strategic governmental departments as the ministry of trade, the customs service, and the Foreign Investment Board.

Looking at tensions within the Indonesian elite in terms of its relationship to capitalism helps to explain much of the political conflict that has occurred since the New Order came to power, including the demonstrations and arrests of 1970, 1974, and 1978. Prominent among the disaffected groups are the traditional Muslim bourgeoisie, both Outer Island traders and the Javanese textile, batik, and kretek producers. Through trading associations and individual spokesmen they have protested against the economic policies of the government which have failed to give protection and subsidy sufficient to prevent large-scale incursions into their traditional sectors of production by capital-intensive foreign and Chinese manufacturers.[66] Through such newspapers as *Nusantara* and *Abadi*, both banned in January 1974, two power groups were singled out for criticism: the Bappenas economic planners who rejected protection and subsidy and encouraged large-scale foreign investment, and the generals, who, for personal and political gain, deployed the power of the state on behalf of foreign and Chinese business. Of particular importance was the widespread and bitter hatred expressed for the cukong.[67] The attacks on the cukong were often explicit and detailed and reflect a continuing antagonism between asli Muslim and Chinese bourgeoisie which goes back to the days of the Sarekat Islam in the early decades of this century. Much of the political clout wielded by this sector of the opposition, such as it is, comes from the fact that the asli merchant bourgeoisie is closely related to the opposition of modernist Islam to the *abangan* Javanese-controlled military bureaucratic state.

The other major current of opposition to the military bureaucratic state comes from intellectuals and students. Their concern is with government policies which produce foreign economic domination and intensify massive social inequality.[68] Opposition to bureaucratic capitalism, generally expressed in terms of opposition to corruption, is based not only on moral abhorrence but on the conviction that much of the limited resources available for productive investment in Indonesia are being siphoned off by the generals for personal and political use.[69] Student and intellectual oppositionists must also be understood in terms of their social and political place in the capitalist structures in Indonesia. Before 1959, and even up to 1965, the

intellectuals were to a large degree integrated in the power structure through the agency of the mass parties. After 1965, when hegemony was seized by the military, intellectuals ceased to play roles as politicians and were offered only those of technocrats and advisers, i.e., subordinate agents of the politico-economic alliance between the military and foreign and Chinese interests. Such roles in a neopatrimonial bureaucratic capitalist state offer little that is attractive to people proud of their technological, administrative, and managerial competence. Only this state's transformation into a regularized bureaucratic capitalist state would open up encouraging prospects for real political and administrative authority.

A serious challenge to the present ruling alliance would be posed if a strong national asli bourgeoisie emerged, able to insist on policies of protection and subsidy and the smashing of the cukong system. But it is clear that the traditional asli merchant bourgeoisie have little political muscle and a declining base of economic power. The government has avoided meeting their demands in any substantive way. As described in the previous pages, there is no evidence that the bureaucratic capitalists are significantly transforming their base of power from bureaucratic authority to ownership of productive capital. Client capitalism has proven too fragile and dependent to produce a large, stable asli bourgeoisie. Although there are indications that elements in the Chinese bourgeoisie are seeking a commitment of the state to a national economy, their precarious social and political position means that they are unlikely to secure significant changes.[70]

The development of capitalism has produced competing interests among groups seeking to establish themselves as the new Indonesian ruling class. Looking at the conflicts within the elite in these terms provides a perspective which has been largely neglected in political analysis of Indonesia. Such a perspective enables us to view the military bureaucratic state within the framework of a peripheral economy as the logical synthesis of a precapitalist political culture with capitalist development in Indonesia, not simply as an aberration or a temporary obstacle to the normal developmental thrust of classical capitalism.

Notes

This paper summarizes one of the major themes in R. Robison, "Capitalism and the Bureaucratic State in Indonesia: 1965-1975" (Ph.D. thesis, Sydney University, 1978), which contains extensive data on the formation and structure of the *asli* (Indigeneous Indonesian) component of the corporate sector in Indonesia and which provides detailed substantiation of various arguments concerning capitalism and the social base of power and the state under the New Order.

1. Research on Third World economies in the 1950s and 1960s was dominated by an American school of political scientists, sociologists, and economists who used a comparative approach and whose intellectual origins lay within the structural-functional view of social structure and social change. Their theses on social, economic, and political change in the capitalist economies of the Third World were predicated on the assumption that the historical experience of the West would be duplicated there. This would be achieved as a consequence of the adoption of modernization policies which would infuse Western capital, technology, values, attitudes, and political structure,

thereby creating a capitalist society and a bourgeois state. Prominent within this broad school were Joseph LaPalombara, Myron Wiener, Lucian Pye, Bert Hoselitz, and W.W. Rostow.

2. Probably the best-known attempt to understand the failure of a traditional asli bourgeoisie is Clifford Geertz, *Peddlers and Princes* (Chicago: University of Chicago Press, 1963). Indonesian writers have also looked at the problem. See Arifin M. Siregar, "Indonesian Entrepreneurs," *Asian Survey*, 9 (1969), pp. 343-58. Sri Edi Swasono, "Some Notes on the Nurturing of the Indonesian Entrepreneur," *Indonesian Quarterly*, 1 (1973), pp. 51-64. The important point about these works and most others on the subject is their interpretation of failure as cultural resistance to capitalism.
3. The economic and political struggle between traditional asli commodity-producers and Chinese capital has been dealt with to varying degrees in W.F. Wertheim, *Indonesian Society in Transition* (The Hague: Van Hoeve, 1956), esp. ch. 5; and R. Van Niel, *The Emergence of the Modern Indonesian Elite* (The Hague: Van Hoeve, 1960).
4. Legge identifies several major streams of nationalism: cultural nationalism, Islamic nationalism, communism, and secular nationalism. With the splitting of Sarekat Islam in the early 1920s and the suppression of the communist uprisings in 1926-27, the field was left to Dutch-educated Indonesian intellectuals drawn from the professions and the bureaucracy. See John D. Legge, *Indonesia* (Sydney: Prentice Hall, 1977), ch.6.
5. The rapid accommodation of such men as Sjafrudin Prawiranegara, Wilopo, and Dr. Sumitro to the continued existence of a foreign-dominated economy is best documented in John O. Sutter, *Indonesianisasi: Politics in a Changing Economy, 1940-1955*, Southeast Asia Program Data Paper (Ithaca: Cornell University, 1959), esp. pp. 1178-1188; and K. Thomas and J. Panglaykim, *Indonesia: The Effect of Past Policies and President Suharto's Plans for the Future* (Sydney: Committee for Economic Development of Australia, 1973), esp. ch.2.
6. Probably the best, detailed summary of the Benteng experiment is to be found in R. Anspach, "Indonesia," in F. Golay et al., (eds.), *Underdevelopment and Economic Nationalism in Southeast Asia* (Ithaca: Cornell University Press, 1969), pp. 111-201. Sutter, Thomas and Panglaykim also provide valuable analyses.
7. In mid-1953, the number of Benteng importers was cut by screening from 7,000 to 3,000. In August 1954, the Central Office of Imports estimated that 90 percent of registered national importers were not bona fide, and the Minister of Economic Affairs, Iskaq, acknowledged that licenses were being marketed at 200-250 percent of their nominal value. In December 1955, Minister of Economic Affairs, Rooseno, ordered a new screening, which again revealed an extremely low (10 percent) proportion of genuine businessmen among the "national importers." See Sutter, *Indonesianisasi*, pp. 1017-35.
8. All of these were Sumatran traders who had risen to national prominence in the 1930s. Benteng import licenses contributed significantly to the expansion of their operations in the early 1950s. For a detailed analysis of this group see Robison, "Capitalism," ch. 5.
9. The Masjumi and the PSI were suppressed in 1960 because of their associations with the PRRI/ Permesta rebellions. Within the PNI, power shifted from figures like Wilopo to more left-leaning and Sukarnoist factions. The various military factions became the major new source of patronage in the period 1957-65.
10. Thomas and Panglaykim, *Indonesia*, is a comprehensive source for this period. See also T.K. Tan, ed., *Sukarno's Guided Indonesia* (Brisbane: Jacaranda Press, 1967).
11. The economic philosophy of the Bappenas (Badan Perencanaan dan Pembangunan Nasional, National Planning and Development Board) technocrats is to be found in a wide variety of writings. Probably the most comprehensive are Mohammad Sadli, "Reflections on Boeke's Theory of Dualistic Economies," in Bruce Glassburner, ed., *The Economy of Indonesia* (Ithaca: Cornell University Press, 1971), pp. 99-123; and Emil Salim, *Tulisan-tulisan* (Jakarta: Bappenas, 1971).
12. Republic of Indonesia, Act No. 1, 1967 (January 1), *Peraturan Modal Asing*; Republic of Indonesia, Act. No. 6, 1968 (July 3), *Peraturan Modal Dalam Negeri*.
13. The damaging effects of this aspect of the Domestic Investment Law were specifically mentioned by a large number of the asli businessmen interviewed by the writer. They argued that the major obstacle to expansion and survival was lack of capital. Not only were they unable to obtain cheap money from foreign sources, but they were only able to secure about 20 percent of state bank investment credit. See Robison, "Capitalism," ch. 4-5.

14. The most detailed attempt to assess the asli share of capital investment in Indonesia is to be found in Pande R. Silalahi, "Perimbangan Modal Swasta Nasional di Indonesia, "*Analisa Masalah-Masalah Internasional*, 3,5 (1974), pp. 9-24. News on the decline of textile and *batik* producers is found in the Jakarta press throughout the period 1970-74, especially in *Nusantara*.
15. Up to the end of 1973, state banks had given only 17 percent of available investment credit to asli businessmen; "Perkiraan Kebutuhan Dana Untuk Menunjang Program Peningkatan Usaha Pribumi Dalam PMN dan PMDN" (Jakarta: Bappenas, February 1974). Obstacles to asli access to bank credit are discussed in detail in the article "Kredit PMDN—Antara Koneksi dan Investasi," *Tempo*, December 9, 1972. The agencies established by the government were P.T. Askrindo and P.T. Bahana.
16. See Presidential Statement to Governors' Working Conference, Jakarta, February 6, 1974, reported in *Kompas*, February 7, 1974, *and Business News*, February 8, 1974.
17. According to Ir. Suhud, Chairman of the Capital Investment Board (Badan Koordinasi Penanaman Modal Asing, BKPMA), achieving the targets set for transfer of equity would involve the expenditure of Rp. 100 billion per year for ten years. (Statement reported in *Kompas*, February 23, 1974).
18. The ideas of the American psychologist D. McClelland have been especially popular with government management institutes and university economics departments. McClelland believes that "Third world" businessmen are not so much confronted with such structural obstacle as lack of capital, as a lack of achievement motivation and entrepreneurial values. At least two government programs have been established to "transform" Indonesian entrepreneurs. See *Sinar Harapan*, December 12, 1974, and *Tempo*, February 22, 1975, for details and comments.
19. Hans O. Schmitt, "Post-colonial Politics: A Suggested Interpretation of the Indonesian Experience, 1950-1958," *The Australian Journal of Politics and History*, 9, 2 (November 1963), pp. 176-83.
20. The resurgence of private corporate investment in Indonesia after 1967 has produced the joint venture and the local partner as major features of big business. In my analysis of major business groups under the New Order, I found that asli participation in big business was dominated by officials, their families, and their associates and consisted in accumulating minority partnerships with foreign or Chinese partners. Traditional asli bourgeoisie participated in very few large joint ventures and retained none of the wholly-owned large-scale enterprises which existed before 1965. See Robison, "Capitalism," Appendix B.
21. Iskaq was the most rigorous enforcer of the Benteng program which was, in essence, an attempt to use the power of the state to alter the structure and composition of the bourgeoisie in Indonesia. Under Sumitro the state was mainly active in banking and long-term central economic planning. See Thomas and Panglaykim, *Indonesia*, pp. 47-49.
22. J.A.C. Mackie, "The Indonesian Economy, 1950-1963," in Glassburner, ed., *The Economy*, pp. 16-69; and T.K. Tan, "Sukarnian Economics," in Tan, ed., *Sukarno's Guided Indonesia*, pp. 29-45.
23. The shares of foreign capital as a percentage of total capital invested in the major sectors of the economy under both the foreign and domestic capital investment laws are as follows:

Agriculture and fisheries	33.5%	Infrastructure	75.0%
Forestry	59.3%	Construction	19.0%
Mining	96.0%	Hotels & tourism	47.0%
Industry	35.0%	Others; mainly property	32.0%

(Compiled from Capital Investment Board data on investment under the foreign and domestic investment laws up to September 1973). It must also be recognized that much of the capital invested under the domestic capital investment laws is foreign loan capital or foreign-financed equity. See the comments of Ir. Suhud at the American Indonesian Chamber of Commerce Seminar, New York, September 1975, for some idea of the extent of foreign banking participation in nominally domestic enterprise (Robison, "Capitalism," ch. 9, especially p. 444).
24. As will be discussed below, various military factions secured hegemony over the operation of strategic state corporations, including agricultural estates, Pertamina, and Bulog (the state food commodity board).
25. Probably the best single analysis of the operation of the appanage in pre-colonial Java is Clifford Geertz, *The Development of the Javanese Economy: A Socio-Cultural Approach* (Cambridge,

Mass.: Center for International Studies, M.I.T., 1956).

26. Several writers have noted the similarities between the appanage system of the precolonial Javanese bureaucratic kingdoms and the relationships which exist between postcolonial party and military elites and the capitalist economy. Willner noted, for example, "...the presence of silent Dutch and Chinese partnerships with whom the elite maintained a symbiotic relationship which supported the modern infrastructure whilst inhibiting its development by Indonesians;" Ruth A.Willner, *The Neotraditional Accommodation to Political Independence: The Case of Indonesia* (Princeton: Center of International Studies, 1966), p. 23. Anderson observes that "Corruption on a large scale typically takes the form of the allotting of the 'surplus' of certain key sectors of the economy to favored officials or cliques of officials, whether civilian or military. Rice collection, tin mining, oil production and distribution, and tax collection are only some of the areas in which officially supervised venality occurs." See Benedict R.O'G. Anderson, "The Idea of Power in Javanese Culture," in Claire Holt et al., eds., *Culture and Politics in Indonesia* (Ithaca: Cornell University Press, 1972), p. 49.
27. See J. Panglaykim and I. Palmer, *State Trading Corporations in Developing Countries* (Rotterdam: Rotterdam University Press, 1969).
28. The information on Pertamina and Ibnu Sutowo is fragmented, and a definitive study of this crucial element in the political economy of Indonesia has yet to be made. The relationship between Pertamina and the state is treated to some extent in Robison, "Capitalism," pp. 248-58.
29. Over the last decade both Pertamina and Bulog have been subjects of intense political debate focused on the question of accountability and of illegal chanelling of state funds to centers of politico-bureaucratic power. This matter is discussed in ibid. Something of the struggle is reflected in the Report of the Commission of Enquiry into Corruption published in *Sinar Harapan*, July 18-23, 1970, in which considerable attention is given to the desirability of making Pertamina accountable. A close analysis of Bulog activities is to be found in the article "Ratu Pelita Sedang Gundah," *Tempo*, October 28, 1972.
30. Detailed tables on the major business groupings and their component companies, including shareholders, total equity, division of shares, directorships, and division of profits, are included in Robison, "Capitalism," Appendix B. The original sources for this information include *Berita Negara Republik Indonesia, Tambahan: Perseroan² Terbatas, Perseroan² Firma atau Komanditer dan Perkumpulan² Koperasi* (henceforth *BNPT*), 1960-75; the Monthly Reports of the BKPMA; business and economic journals such as *Business News*; the weekly magazine *Tempo*; Jakarta newspapers; and extensive interviews with large numbers of Jakarta businessmen.
31. Officers prominent (now or in the past) in private military business groups who were formerly attached to military finance or logistics units include:
General Sudjono Humardani, now a director of P.T. Tri Usaha Bhakti and lynchpin of the Opsus business group. Formerly Deputy Chief of Finek, Diponegoro Division, and Deputy Chief of Finek, Army Central Command.
General Suryo, Head of Yayasan Dharma Putra and the state-owned Hotel Indonesia group. Former chairman of the State Auditing Office and personal presidential adviser for finance and economy.
Kol. Hanafi Wiradireja, President-Director of the Siliwangi business group P.T. Propelat. Former Chief of Finek, Siliwangi Division.
32. Full details on these and other family business groups are given in Robison, "Capitalism," Appendix B.
33. The budgetary shortfall and the need to secure private sources of income for military units have been admitted by Admiral Sudomo (*Tempo*, June 7, 1975), General Hartono (*Pedoman*, September 30, 1969), and Admiral Harjono (*Ekspres*, October 3, 1970). The Armed Forces newspaper *Angkatan Bersendjata* (March 4, 1970) also dealt with this dimension of military financing.
34. For example, the newpapers *Suara Karya* and *Berita Buana* are associated with Opsus. *Angkatan Bersendjata* is associated with Hankam. Ibnu Sutowo's personal gifts of mosques and sports stadia are well documented in the Jakarta press. The Commission of Enquiry into Corruption mentioned in their Report of July 1970 the need to regularize personal expenditure on gifts and scholarships by the President (see *Sinar Harapan*, July 18-23, 1970).
35. Under PSI patronage, Hashim Ning was appointed President-Director of the state-owned

Chrysler assembler I.S.C. Together with Dasaad, he secured the sole agency for the import and assembly of Fiats by P.T. Daha. Aziz secured the International Harvester, Lubis the Leyland, Suwarma the Mercedes, and Panggabean the Volkswagen sole agencies, respectively.

36. For details, see *BNPT*, 1971 no. 591.
37. *BNPT*, 1972 no. 408.
38. *BNPT*, 1971 no. 275, and 1973 no. 935.
39. *BNPT*, 1973 no. 591.
40. Some examples are: P.T. IRDA (Rp. 1 million) assumed a 25 percent share in the joint venture P.T. I.T.C.I. (Rp. 200 million); P.T. Sula (Rp. 2.5 million) assumed a 30 percent share in the joint venture P.T. Taliabu Luna (Rp. 800 million); P.T. Mulawarman Bhakti (Rp. 1 million) assumed a 44 percent share in the joint ventures P.T. Kayu Mulawarman (Rp. 560 million) and P.T. AC Timber Raya (Rp. 622 million). Full details of the forestry joint ventures are in Robison, "Capitalism," Appendix B, and pp. 260-61, 286-88.
41. Yoshi Tsurumi, *A Report Submitted to the Harvard Advisory Group* (Jakarta: Bappenas, October 1973), pp. 13-14.
42. *Business News* (editorial), February 3, 1973.
43. *BNPT*, 1959 no. 826, and 1963 no. 263. An integral partner of these Diponegoro companies was the Chinese businessman Moh. (Bob) Hasan, whose extensive business group today links prominent military figures and their families with Chinese business interests. Note especially P.T. Karana and P.T. Wasesa, two shipping companies which one included General Gatot Subroto and his wife as shareholders and which allocate a portion of their profits to Mrs. Suharto's Yayasan Kartika Jaya. (*BNPT*, 1973 no. 662, and 1968 no. 44).
44. The major companies within the Yayasan Dharma Putra Group include: P.T. Bank Windu Kencana (*BNPT*, 1968 no. 74); P. Seulawah Mandala Airlines (*BNPT*, 1971 no. 319); P.T. Garuda Mataram Volkswagen importers and assemblers (*BNPT*, 1971 no. 591); and P.T. Asia Veteran Development Logging Co. (*BNPT*, 1973 no. 21).
45. A brief outline of the Cendana group is as follows:

Company	Suharto family and associates shareholding	Chinese or foreign shareholding	
P.T. Rumpun Estates (*BNPT*, 1968 no. 1)	Mrs. Suharto with Diponegoro officers and wives, 6% each		—
P.T. Kartika Chandra Hotel (*BNPT*, 1970 no. 87)	100%		—
P.T. Hanurata Logging (*BNPT*, 1973 no. 320)	100%		—
P.T Waringin Kencana Trade & Crumb Rubber (*BNPT*, 1970 no. 275)	15%	Liem Sioe Liong Group	85%
P.T. Bogasari Flour Milling (*BNPT*, 1970 no. 258)	4%	Liem Sioe Liong Group	96%
P.T. Indonesia Cement (*BNPT*, 1974 no. 273)	5%	Liem Sioe Liong Group	95%
P.T. Kabel Metal (*BNPT*, 1972 no. 503)	49%	W. Germany	51%
P.T. Semen Nusantara (*BKPMA*, March 4, 1974)	30%	Japan	70%
Bank Ramayana (*BNPT*, 1971 no. 604)	7%	Ong Seng Keng and other Chinese	93%
P.T. Mercu Buana Clove Import. (*BNPT*, 1967 no. 137)	100%		—
P.T. Mercu Buana Contractors (*BNPT*, 1973 no. 764)	100%		—
P.T. Mercu Buana Chemicals (*BNPT*, 1973 no. 533)	50%	Agus Nursalim	50%
P.T. Multi France Motors	25%	Hendra Wijaya	75%

(*BNPT*, 1973 no. 591)			
P.T. Buana Estate Property	100%		—
(*BNPT*, 1973, no. 649)			
P.T. Kedawung Subur Glass	35%	Agus Nursalim	65%
(*BNPT*, 1974 no. 103)			

46. See *Nusantara*, December 11, 1971, and *Indonesia Raya*, November 3, 1972, for details on the establishment of Bogasari.
47. *BNPT*, 1970 no 258.
48. Tong Djoe, formerly of Palembang and now of Singapore, was associated with Sutowo during the latter's early years as director of Permina (one of the forerunners of Pertamina). By the late 1960s, Pertamina was purchasing and chartering ships from Tong Djoe, while Tong's Handara shipyard in Hong Kong was supplying Pertamina with barges and tugs. See Howard Dick, "The Indonesian Interisland Shipping Industry" (Ph. D. thesis, Australian National University, 1977), ch. 6. Sutowo and Tong Djoe are also private joint venture partners in a wide variety of companies including shipyards, a hotel, a travel company, and a livestock company. (See Robison, "Capitalism," p. 319 and Appendix B).
    The major Chinese partners in the Sultan's business group are Teddy Chandrajaya and Petrus Tirtajaya, both of whom are associated with the Putera group which in the 1950s was part of the PSI/Bank of Indonesia cluster of enterprises. At that time the Sultan was working closely with Dr. Sumitro and others in the PSI to establish this partially state-owned core of companies. See Sutter, *Indonesianisasi*, pp. 981, 1054-64; and Robison, "Capitalism," pp. 302-8 and Appendix B.
49. See the article, "Kredit PMDN—Antara Koneksi dan Investasi, "cited above, n. 15.
50. On P.T. Semen Cirebon, *BKPM*, January 5, 1974. In an interview with the writer (September 12, 1974), Sukamdani expressed reluctance to enter joint ventures as a minority partner because, in his view, it resulted in dominance by the foreign partner. This view was also stated in an interview published in *Suara Karya*, June 22, 1973.
51. The Teuku Daud empire embraces several large enterprises which are owned predominantly by Acehnese shareholders. These include P.T. Cita Engineering, P.T. Cita Crumb Rubber, P.T. Unatra Construction, and P.T. Unicon Property. Daud's early business career was with C.T.C., a PSI-sponsored state corporation. Today, Daud's business group is an integral component of a triangular business alliance between the Sultan, the Putera group, and his own Cita group (Robison, "Capitalism," pp. 302-8 and Appendix B). The core of Sutowo's group is the Bank Pasifik, fully owned by the Sutowo family (*BNPT*, 1973 no. 90). Although the trend for the Poleko group is also to move into joint ventures, several of its major companies (P.T. Poleko Trade, P.T. Sulinda, and P.T. Jagung) are fully owned by the Poleko family.
52. Those cases where it is reasonably clear that the privately owned capital of officials and their clients is invested in business generally concern the hotel and property sector. Some examples are:

Probosutejo	P.T. Mercu Buana Real Estate
Suharto Family	P.T. Rejo Sari Bumi Estates
Sukamdani	Hotel Sahid
Ali Sadikin	P.T. Pakuan
Widodo Sukarno	P.T. Mahkota
Ibnu Sutowo	P.T. Indonesialand
Sultan Group	P.T. Urecon Utama, P.T. Sovestco

    It is common knowledge that officials and their families are the owners of a large proportion of the luxury Jakarta housing leased to foreign executives and officials. Although I have been unable to find documentary evidence, I am assured by authoritative sources that officials are moving into riceland ownership on a considerable scale, significantly changing the power structure in rural Indonesia.
53. The most important of the business alliances between asli politico-bureaucratics leaders and Chinese business groups are:

Center of Power	*Chinese Business Group*
Palace	Kencana Group (Liem Sioe Liong)
-Kostrad	Bank Ramayana (Ong Seng Keng)
-Cendana	
Opsus	Pan Group (Mochtar Riady & Panglaykim)

	Pakarti Group (Liem Bian Kie & Liem Bian Koen)
	Berkat Group (Yap Swie Khie)
Sultan	Putera Group (Chandrajaya)
Sutowo	Astra Group (William Suryajaya)
	Tunas Group (Tong Djoe)
The Government of Jakarta	Pembangunan Jaya (Ir. Tjiputera)

These are merely a selection of the most prominent alliances. Many such relationships exist right down to the village level. Substantiating data is too extensive to be listed here but may be found in Robison, "Capitalism," passim.

54. Lance Castles, *Religion, Politics and Economic Behavior in Java: The Kudus Cigarette Industry*, Cultural Report Series (New Haven: Yale University, 1967).
55. Sutter, *Indonesianisasi*, pp. 679, 1051.
56. Large numbers of party clients entered business in the Benteng period, including party officeholders such as Herling Laoh and Moh. Tabrani. Not only were import licenses selectively allocated, but government funds were used to bolster the deposits in private banks owned by major party figures, and government import contracts were subcontracted to selected clients. See J. Eliseo Rocamora, "Nationalism in Search of an Ideology: The Indonesian Nationalist Party, 1946-65" (Ph. D. thesis, Cornell University, pp. 180-92; and Sutter, *Indonesianisasi*, pp. 1020-35, 1053-54.
57. See details on P.T. Berdikari and P.T. Bank Dharma Ekonomi (*BNPT*, 1966 no. 145 and 1967 no. 174).
58. See the article "Bintang-Bintang Dalam Gelanggang Ekonomi," *Tempo*, February 3, 1973; and Harold Crouch, "The Indonesian Army in Politics" (Ph. D. thesis, Monash University, 1975), pp. 639-40.
59. The relationship between Jusuf Muda Dalam, Sukarno, and other major Guided Democracy political figures and their business clients was treated in detail in the Jakarta press in 1966 and 1967. See especially *Warta Berita*, January 7, 1967; *Kompas*, February 6, 1967; *Sinar Harapan*, February 16, 1967; see also *Far Eastern Economic Review*, April 7, 1966.
60. The most important surviving component of the Dasaad empire is a 20 percent partnership in a forestry joint venture (P.T. B.G. Dasaad Joint Venture). The Tamin family have been forced to seek joint venture partners in order to compete with the massive inflow of capital-intensive investment in the textile industry. Their P.T. Daralon is a joint venture, and they are seeking partners for P.T. Ratatex, once a giant national enterprise under Guided Economy. Much of this information comes from extensive interviews with asli businessmen including Eddy Dasaad, Darwis and Sofjan Tamin, Ali Noorluddin (Aziz), Harlan Bekti, Kusmuljono, and others during 1974.
61. These are P.T. Sahid Hotel and P.T. Semen Cirebon.
62. These are P.T. Taliabu Logging (*BNPT*, 1970 no. 26), P.T. Tartidmas Logging (*BKPMA*, October 26, 1971), P.T. Taliabu Luna Logging (*BNPT*, 1974 no. 28), and P.T. Cahaya Samudra Bulk Log Carrying (*BKPM*, May 21, 1971).
63. The data on these client groups is too extensive to list here. See the details on the groups of Widodo Sukarno, Sucipto Amidharmo, Tony Suleiman, Teuku Daud, and Sukamdani Gitosarjono in Robison, "Capitalism," Appendix B.
64. Siswono is the son of Suwondo, former deputy mayor of Jakarta. Ponco Sutowo is the son of Ibnu Sutowo. Suryadharma Tahir is the son of General Tahir.
65. See the article "Suara Kontraktor," *Tempo*, November 22, 1975.
66. Because the national business association Kadin is now dominated by the generals and acts largely as an instrument of administration (as did its predecessor under Guided Democracy, Bamunas), the most active associations are either regional or confined to particular economic sectors. Some of the most vocal are Perteksi (Indonesian Textile Producers' Association), Kopteksi (Indonesian Textile Cooperatives' Association), Ginsi (Indonesian Importers' Association), and the regional Kadin (Chambers of Commerce). Some of the more prominent individuals speaking on behalf of the asli entrepreneurs include Rachmat Mulyomiseno, Omar Tusin, Sutomo, and J.C. Tambunan, all leaders of declining asli business associations. The collapse of asli business has been widely discussed in the Jakarta press over the past ten years and the views of these individuals have become well known. See Robison, "Capitalism," ch. 9.
67. *Nusantara*, owned by the Acehnese businessman Teuku Hafas, was particularly persistent and

explicit in describing the relationships between generals and *cukong*. See especially the issues of September 24, 1970, September 8, 1972, November 13, 1972, February 10, 1973, January 30, 1974, and January 31, 1974. The issue has also been discussed in the articles "Bintang-Bintang Dalam Gelanggang Ekonomi," *Tempo*, February 3, 1973; Korupsi: Terasa Ada Terkatakan Tidak," *Ekspres*, June 27, 1970; and "Kaum Militer dalam Business," *Ekspres*, October 3, 1970.

68. See Soedjatmoko, "International Relations in a New Era—Japan and the Economic Development of Asia" (paper given at Sophia University, Tokyo, October 29, 1973); and Sarbini, "Address to Japan-Indonesia Seminar on Nation Building," March 26, 1973, cited in *Business News*, March 28, 1973.
69. The material on corruption and reactions to corruption in the Jakarta press is extensive. See Robison, "Capitalism," pp. 354-70.
70. The view put forward by the Center for Strategic and International Studies represents the opinion of a powerful section of the Chinese business community: that their survival is best guaranteed by accommodation with asli business groups under the umbrella of state protection against the multinational corporations. See J. Panglaykim, "Struktur Domestik Dalam Interdepensi Ekonomi Dunia," *Analisa Masalah-Masalah Internasional*, 2, 12 (December 1973), pp. 37-44; and Kwik Kian Gie, "Foreign Capital and Economic Domination," *Indonesian Quarterly*, 3 (April 1975), pp. 39-72.

Chapter 2

Class, Capital and the State in New Order Indonesia

Approaches to the Analysis of the New Order State

The New Order government of President Suharto has been a fascination for scholars and political commentators since its emergence in 1965. Yet the cause of this fascination, and the consequent analysis of power and conflict in contemporary Indonesia, differ fundamentally according to the theoretical and ideological frameworks within which these analyses are, consciously or unconsciously, located.

It is the intention of this chapter to draw out the theoretical inadequacies of existing interpretations of the New Order state and its role in the political economy of contemporary Indonesia. At the same time, I will develop a theoretical analysis which attempts to provide a systematic explanation of the relationship between class, economy and politics and to place them in an historical context.

Setting aside those works on Indonesian politics which simply concentrate on the day-to-day manoeuvrings of individuals and factions within the power structure, and make no attempt whatever to place politics in any form of social or economic context, analysis of the New Order has fallen into three theoretical/ideological categories:

a) The political order approach;
b) The economic technocracy approach;
c) The dependency approach.

In the first section of this Chapter I will outline the basic features of these approaches and suggest a fourth possible approach which derives from the theoretical questions raised by the productionist critique of dependency theory and the work being done on the "New International Division of Labour."

a) The Political Order Approach

This approach is developed in the works of Donald Emmerson, Karl Jackson and Bill Liddle.[1] It draws upon the structural-functional analysis of politics and society

developed by Talcott Parsons, the comparative politics analysis of such political scientists as Lucien Pye and Gabriel Almond, but more immediately, upon the political order approach of Samuel Huntington and Fred Riggs.[2] In general terms it deals with the creation of power and the integration of a social system. In specific terms it asks whether the New Order state has been able to develop political and bureaucratic organizations with sufficient complexity, flexibility and power to integrate a society and polity in a process of upheaval and transition.

Apart from the concern for the problems of generation of political power and administrative efficiency, the basic currency of analysis is, in keeping with the tradition of the behaviouralism of cultural politics, the cultural and psychological attachments of individual political actors. Like Riggs in his analysis of Thailand, the political order analysis of the New Order concludes that the fundamental contradiction in the Indonesian polity is that between modern political structures and traditional political culture. Because politics is conceived and structured in terms of personal relationships between clients and patrons, the increasingly complex and powerful political structures clearly developed by the New Order are harnessed to the needs of individual officials, political factions, patron-client groups and cultural streams rather than to the integration of social and political forces and the pursuit of the common good. The power and resources of the state are appropriated by state officials to further their personal and political advantage and that of their family, clique or political power base. In essence, this is another variation of the conflict between tradition and modernity.

b) The Technocracy Approach

The intellectual origins of this second approach are the "end of ideology" analyses of North American political science[3] and development or growth economics which was applied to the Indonesian situation by economists such as Bruce Glassburner and Heinz Arndt. There are three important dimensions to this approach. First, it is assumed that state policy can be conceived and implemented by technocrats on the basis of criteria provided by objective and scientific theories of economics, transcendental to and autonomous of social and political conflict. In this sense it is not in contradiction with the political order theory and public policy approaches discussed in detail in Chapter 1 of this book. Second, it is assumed that economic growth theory is non-political in that it seeks the common good in the long term. Third, it is argued, in the case of Indonesia, that the transition from the Sukarno period to the New Order was an inevitable movement from chaos to order, from ideology to objectivity.[4] Such an interpretation was confirmed in a very concrete way by the appointment of trained economists to positions of authority with responsibility for the planning and implementation of economic strategy. The fall of the Sukarno state was considered to be a consequence of the subordination of "economics" to politics, involving the imposition of irrational and ideological constraints upon rational and scientific economic policy. The movement from the

Old Order to the New Order in 1965 was therefore a logical, necessary and indeed, inevitable, retreat from economic ruin.

To the extent that the New Order state has implemented sound economic policy, it and the military who dominate its apparatus, shed their political and ideological identity to become part of a technocracy guided by an apparently objective and scientific logic, with the technocrats as the intermediaries between science and power.

For those who adopt this analysis the measure of success for the New Order state is its ability to implement economic growth strategies. At one level this means strict adherence to the prevailing economic orthodoxies emanating from the World Bank or the *Bulletin of Indonesian Economic Studies*. The primary conflict in the New Order becomes that between economics and politics; whether or not rational economic goals will be sacrificed to short-term political expedience to satisfy the demands of individual interest groups.[5] A secondary conflict lies at the bureaucratic rather than the political level and is concerned with structural obstacles to growth, including inefficiency, poor management, red tape and corruption.

c) The Dependency Approach

The most notable dependency interpretation of the New Order state was Rex Mortimer's "Indonesia: Growth or Development" which appeared in his collection of dependency-oriented articles, *Showcase State*.[6] For Mortimer, the New Order State was one component of an alliance between foreign capital and indigenous politico-bureaucratic forces dominated by the military. In return for access to the largesse which was a by-product of foreign investment, the politico-bureaucrats of the New Order facilitated the entry of foreign capital and the outflow of surplus which constituted the basis for the perpetuation of underdevelopment.

Although Mortimer had written on the process of class formation and conflict in Indonesia, he was generally of the opinion that domestic classes were too weakly developed to constitute the basis of politics. Instead, he argued that traditional, patrimonial networks of patrons and clients, cutting across weakly-formed to provide the real basis of political conflict and organization.

Despite Mortimer's gloomy prognosis for the prospects of revolution, other writers influenced by dependency theory, notably Anderson and Feith, have taken the position that the increasing inequality, misery and repression inherent in the underdevelopment process, together with the accompanying isolation of the ruling group, will provoke a middle-class-led reaction against the New Order state.[7]

d) The Productionist Critique of Dependency Theory and its Implications for the Study of the New Order State

Although it has not yet been welded into a systematic thesis, the Marxist critique of dependency theory has raised some critical theoretical points which have important implications for our conception of the form and function of the state in the Third

World.

Most important it has been argued that development and underdevelopment are functions of the development of forms and relations of production rather than consequences of global patterns of exchange. Leys put this point most succinctly:

> What produces underdevelopment is not the "transfer of surplus" appropriated by metropolitan capital from the periphery to the metropole, significant though this may be. Rather, such a transfer should be seen as an effect of structures at the periphery which militate against the productive investment of the surplus of the periphery. Speaking generally, these are class structures which permit absolute surplus labour to be appropriated, but prevent the realization of relative surplus value.[8]

This immediately throws the focus of analysis upon the development of capitalist relations of production and the development of a class of capital accumulators. The state now becomes crucial because of its strategic role in the process of class formation, class conflict and capital accumulation. Specific questions require resolution. To what extent does the state intervene in political conflict to secure the social and economic dominance of the emerging class of accumulators or to secure the dominance of any one fraction of a bourgeois alliance? To what extent does the state provide the conditions of accumulation through the provision of direct investment, economic infrastructure, protection, credit and monopolies, and a legal and administrative infrastructure? To what extent does the state resolve social, economic and political crises which attend the process of development of industrial capitalism? Such questions mean that the relationship between state and class must be theorized and, in the case of Indonesia, this is particularly crucial where the military rule and the normal channels of institutionalized class domination of the state apparatus do not exist. This leads to further and more specific questions. Is the state autonomous? Do the military bureaucrats constitute a state class? How useful is the Bonapartist notion of the state? How helpful is a structural approach to the understanding of the relationship between state and class?

A second focus of the productionist approach centres around the demands imposed upon the state by different stages of capitalist development. Here the work of Luckham is most useful.[9] He relates the state project to stages of capitalist development, from petty commodity production, to enclave export commodity production, import substitution industrialization and, finally, export-oriented industrialization. As the stages progress, Luckham argues, increasing demands are placed upon the state to provide economic, political, legal and fiscal infrastructure for an increasingly complex accumulation process and to intervene in the social and political conflicts and crises generated by capitalist development on behalf of the accumulators. Consequently, the old forms of direct rule by families, or by loose party alliances of landowners and national bourgeoisie, or by military strongmen, characteristic of merchant capitalism or commodity export economics, must give way to new, complex bureaucratic regimes, often politically dominated by the military but administered by technocrats.

With the emergence of a new international division of labour which is having the effect of relocating manufacture globally, the process of industrialization in the Third World has accelerated. As a result, we are seeing a new type of Third World capitalist economy and state; characterized by high rates of economic growth, rapid industrialization, the development of powerful national bourgeoisie, and strong, authoritarian regimes exhibiting corporatist or even totalitarian tendencies, and developing political ideologies which legitimize power in terms of economic growth and technocratic government. South Korea, Taiwan, Singapore, Brazil and Iran before 1979 are the archetypes of such new states.[10]

The implications for analysis of the New Order regime are clear. To what extent can we explain the structure of the New Order and its policies in terms of the increasing necessity for intervention in the accumulation process brought about by rapid economic growth and industrialization? Is the New Order state moving towards the model capitalist state variously categorized as "techno-fascist," "bureaucratic-authoritarian" or "repressive-developmentalist"?

One problem must be cleared up before I move on to a specific discussion of the Indonesian case. I am not proposing that the nature of the state is determined by an autonomous progression of the economy from one stage to another but, rather, that certain state functions, political and economic, are necessary to specific stages in economic development. Indeed, it is the process of class formation and conflict, and of the development of appropriate political structures, which makes such economic transitions possible. Industrialization cannot progress until certain social and economic preconditions are met: the existence of a potential free wage labour force and of a state able to protect the political interests of capital and provide a minimum of infrastructure. Of course the process is mutually reinforcing and the state will find itself increasingly forced to meet the economic and political demands of the growing bourgeoisie, particularly the international corporations.

The Origins of the New Order State

The New Order state cannot be explained as the consequences of the political victory of the military or the inevitable triumph of "economics" over politics or the replacement of patrimonial with technocratic behaviour. It is instead the consequence of a protracted and complex process of social, economic, and political conflict, notably:

i) The weakness of social classes, most importantly the failure of a powerful national bourgeoisie to emerge, enabled the development of a state apparatus in which political power and bureaucratic authority were appropriated and integrated by the military, party and state officials themselves. In the course of the struggle for power amongst these political-bureaucratic groups it was the military which triumphed.

ii) The failure of the national state and the national bourgeoisie to reconstitute the Indonesian economy from a declining colonial agricultural export economy into

a state-led manufacturing economy through import-substitution industrialization (ISI).

iii) The failure of forces of social revolution, comprising significant elements of labour, peasants and intellectuals under the political leadership of the PKI (Indonesian Communist Party), to wrest political power from conservative forces, which included rural landlords, national bourgeoisie and petty bourgeoisie, the urban middle classes and the military.

a) The Weakness of the National Bourgeoisie

Perhaps the most cohesive and clearly defined, and certainly the most powerful segment of the domestic bourgeoisie, was the Chinese merchants. Until the mid-nineteenth century they had been used by both traditional Javanese and Dutch colonial rulers as tax farmers and operators of state trading monopolies. With the development of estate and small-holder commercial production they began to establish domestic trade and credit networks dealing in rice and small-holder produce, retailing, money-lending and processing of agricultural produce including rice hulling and sugar milling. With the lifting of travel and residence restrictions in 1908 they began to spread down to the villages, eroding the grip of small Javanese and Sumatran traders. At the same time they moved into the small-scale manufacturing sectors traditionally dominated by indigenous petty commodity producers: textiles, batik and kretek. Despite attempts by political parties, the state and the indigenous bourgeoisie to politically constrain Chinese economic influence, their economic dominance has been consolidated in the post-colonial period, especially after the departure of the Dutch, largely because their economic competitors, both private and state, were so weak.[11]

The power of the Chinese, however, was limited by several factors. Despite their general economic dominance, they were essentially a merchant petty bourgeoisie focused around the extended family with an economic position firmly embedded in the colonial export agricultural economy. Hence, they were unable to provide the basis of capital accumulation and corporate organization for industrialization in Indonesia. Equally important, the Chinese have been unable to secure access to public exercize of political power because of the social hostility of the indigenous population. Whist they have been politically influential as individuals and economically indispensible as a group they have been forced to secure their interests indirectly through indigenous politico-bureaucrats.

Neither did an indigenous bourgeoisie form the social basis for political transformation of the social and economic order. The bulk of indigenous businessmen under colonial rule were petty commodity producers and small-scale traders in small-holder crops. By 1949, only a handful had expanded their activities to trade on a national level or to factory production employing wage and piece labour and replacing hand with mechanical production processes. Political and economic organization of the indigenous bourgeoisie, beginning from the formation of

Sarekat Dagang Islam in 1911 attempted to meet the Chinese challenge by securing control of trade, especially in the field of batik and textiles. By the early 1930s, after some early success, the surge had exhausted itself, not only because they had failed to secure control of trade but because economic power was now increasingly located in capital investment, i.e. industrial and finance capital was beginning to challenge merchants' capital. In the traditional areas of indigenous manufacture (kretek cigarettes, textiles, batik, beverages and foodstuffs) the indigenous producers found themselves increasingly outweighed by the superior capital resources of Chinese and international capital.[12]

Although private land title and increasing commercialization of agricultural production were introduced from the mid-nineteenth century, no economically dominant, landowning class emerged to constitute a politically cohesive force at the national level. The traditional Javanese ruling class had not converted their rights to agricultural produce into private landownership but instead became salaried official of the Dutch - and agrarian bureaucracy rather than a class of hacienda owners.[13] At the village level the concentration of landownership was a slow and fitful process whilst politics was not defined by rival camps of landed and landless but by complex patron-client networks which mediated the conflicting social interests of different classes. The structure of the rural classes remained a confused amalgam of landlords, tenants and independent peasant proprietors and the real process of class development and capitalist transformation of rural society was to begin after independence and only accelerate in the 1960s and 1970s.

So from 1949 to 1965, the state operated in a vacuum of social power. However, there began a tentative crystallization of a new capitalist ruling class around the state, which proved to be the only concentration of political and economic power with the potential to develop national capitalism. A crucial element in this development was the relatively small group of party leaders and state officials who appropriated the state apparatus, fusing political power and bureaucratic authority. Parties, factions of parties and military commands secured control of various strategic sections of the state apparatus, dividing amongst themselves government departments, banks, state corporations controlling trade, economic policy, resources, credit and contracts. Economically strategic offices were filled with party and military officials who used the resources and power of office to finance the political operation of party and military factions and to enlarge the personal wealth of individual politico-bureaucrats. Using appropriated power to allocate licenses, concessions, credit and contracts, the politico-bureaucrats were able to construct economic alliances with the major Chinese and indigenous business groups.[14]

The most important implication of the weak and fragmented class structure, however, was the weakness and strength it simultaneously imposed upon the state. No class was able to impose its authority on the state, in either an instrumentalist sense (through the institution of a political party) or structuralist sense (through the exercize of structural imperatives), by virtue of highly developed social or eco-

nomic power. Consequently, the state was both relatively free of the dominance of social forces and forced to play a central role in the process of capital accumulation. But at the same time, the weakness of classes meant that the power of the state was not embedded in deeply entrenched social and ideological structures developed by a dominant class upon the institutions of land or capital and institutionalized in party structures. It was a civil and military bureaucracy perched upon an uncertain, fragmented and unstable social structure.

b) The failure of Import Substitution Industrialization (ISI)

The new Indonesian Republic inherited a colonial, export-oriented, agrarian economy based on Dutch corporate investment in plantation production and trade. During the early years of independence, the Indonesian state was confronted with the enormous difficulties of interfering with this colonial economy. State revenue, foreign exchange earnings and the existing social order were predicated upon agricultural and mineral exports financed and managed by Dutch and Chinese bourgeoisie. Many centres of political-bureaucratic power and their Chinese and indigenous business associates indeed developed interests in the colonial economy by selective establishment of monopoly positions within its framework, particularly in the import sector. But at the same time, other forces were pushing for appropriation of the Dutch interest. These included the PKI, labour unions, economic nationalist elements within the PNI (Indonesian National Party), and even indigenous business associations who hoped to step into the shoes of the departing Dutch. The military also took a leading role in the process of nationalization, initially because of its alarm at the unilateral seizure of the Dutch corporations by labour unions, but in the long term because the appropriated Dutch plantations and trading houses promised and provided the military with valuable sources of revenue.[15]

Economic nationalism not only involved appropriation of the colonial economy but an attempt to build a national import substitution industrial section. The economic policies known as Guided Economy provided a blue print for state-led capitalist development, involving the use of foreign exchange earning from oil, mineral and agricultural exports as a basis for investment in industry together with varying degrees of state protection and credit for national industrial capital. Large-scale overseas borrowing was also undertaken to provide for investments in such capital goods industries as steel mills and shipyards.[16]

The drive of ISI failed for a variety of reasons. The attempt to industrialize suffered from the same problem which had confronted industrialization plans in the 1950s and which had led to the state assuming the dominant role in direct corporate investments as well as financing and policy-making; the Indonesian bourgeoisies, both Chinese and indigenous, were essentially merchant bourgeoisies unable to generate the process of accumulation necessary for industrialization.[17] Indeed, the weakness of the national bourgeoisies was a major factor in the move towards state-led national capitalism in the late 1950s. But the state apparatus was also unable to

administer the accumulation process, largely because of the inexperience and inefficiency of the new military managers of state enterprise and their general misuse and misappropriation of state resources. Capital stock, including the plantings in the crucial plantation sector, were allowed to degenerate and little new investment was made.[18] As a result, the export earnings from agricultural products in particular declined sharply causing serious balance of payments problems which eventually rendered Indonesia incapable of servicing its existing debts. Such decline was already under way during the colonial period. Sugar, for example, had been virtually wiped out as an export crop during the depression.[19] A most important consequence was that planned accumulation for purposes of industrial investment did not take place.

By the early 1960s, it was obvious that the state-led national capitalist experiment was foundering. Inflation increased to over 600 per cent; by 1965, the flow of imported consumer goods and spare parts ground to a halt and the economic infrastructure fell into increasing disrepair. Because of declining export income, a stage was reached in 1965 where foreign debts could not be serviced under existing arrangements.[20] This dislocation affected with greatest intensity those elements of society most fully integrated with the previously Dutch-dominated economy: the state officials, the urban middle classes and the domestic bourgeoisie. For these people and the military, the solution appeared increasingly to lie in the reconstitution of capitalist economy with foreign capital as the primary basis of accumulation and organization.

c) The Failure of Social Revolution

These events must be considered together with a process of social and political conflict. This conflict was often confused by ideological and political attachments cutting across class lines. Indeed, the revolutionary party, the PKI, used these non-class divisions for purposes of mobilization and found itself caught between alliance with the politico-bureaucrats and the bourgeoisie in the context of client-patron political structures and revolutionary action based upon mass peasant and proletarian support.

Nevertheless, there is little doubt that class conflict was taking place, occurring with greatest intensity in the countryside. Out of this class conflict emerged a virulent counter-revolutionary movement—that of the indigenous petty bourgeoisie and landlords whose opposition to the PKI was defined not only by its material interest in the preservation of capital and private ownership of land but also in its ideological opposition to the PKI as an atheistic and anti-muslim party.[21] Nor was this conflict a recent phenomenon. It stretched back to the political struggles within Indonesia's first nationalist political movement, the *Sarekat Islam*, in the early 1920s.

In reality, the Sukarnoist state cannot be described as a socialist state; it was a state which constituted the interests of national capital and the politico-bureaucrats.

Where the state did attempt to implement legislation of a reformist nature, such as the land reforms of 1960, it was frustrated and obstructed at every turn by its own officials and by the power of vested class interests. In a very important sense, the crucial flaw of the Sukarnoist state was its political inability to act decisively in the context of deepening polarization of class conflict, and secure the political victory of either of the antagonists.

The decisive element in the defeat of the PKI was the power of the military. In one sense military opposition to the PKI was the consequence of a history of political and institutional struggle between the only two political forces with the potential to rule Indonesia, stretching back to the period of the anti-Dutch struggle of the late 1940s. But deeper than this lay the military's interest in maintaining its economic appanages and, in the final analysis, in maintaining a social order in which its political dominance was secured.

Much has been written on the reasons for the failure of the PKI and the social revolution in Indonesia,[22] however, two points emerge. The PKI committed serious tactical political errors in sacrificing an emphasis on ideological and organizational cohesion to the mobilization of large numbers whose attachment to the party in many cases was not defined by a commitment to class struggle. But in a very important sense this may have been unavoidable. The potential revolutionary classes, peasants and workers, were weak because of the very weakness of capitalism. Peasant society was a complex and confused mass of small landlords, independent peasant owners, tenants and landless, tied together by various feudal and exchange networks of political and economic obligation. The working class was minute. Neither the political parties nor the Sukarno state could be said to base their authority upon any clearly defined class alliance, but the military, in contrast, found itself beginning to constitute the political expression of a loose, structural alliance of bourgeoisie, petty bourgeoisie and landowning class, increasingly aware of their economic interests and of the implication of the PKI challenge.

In this sense, the military came to power at the head of a counter-revolution. It is this political victory of a specific set of class interests, and not any objective logic of economics, which sets the course for the development of the New Order state and its economic policies in the years from 1965 to 1982.

The Political Structure of the New Order

In formal terms it is the military who rule in New Order Indonesia. During the twenty years since President Suharto secured power, the military has progressively entrenched and centralized its own power and excluded its allies, the students and intellectuals, the muslim petty bourgeoisie and the landlords, from any meaningful political role and has largely managed to muzzle even public criticism of the government. For those outside the military, access to even the outer circles of power and influence is confined to informal patron-client networks or to government-controlled and sponsored corporatist organizations such as *Golkar* (the state

political party) and the myriad of state organization for business, labour, public servants and other "functional groups".

This dominance has been made possible, not only because of the political success of the military in establishing these corporate structures and repressive apparatus, or to the social weakness of classes, but because the state occupies a strategic position in the economy. The dominant sources of wealth-oil, gas and minerals-do not produce profits for a national bourgeoisie but revenue for the state which participates in the exploitation of these resources in production-sharing agreements with international corporations. If we add to this the substantial amounts of foreign loans and aid channelled into the government, a picture of considerable financial autonomy from national sources emerges.[23]

Whereas the Sukarno regime justified its authoritarian form as most effectively crystallizing the popular consensus of the masses, the New Order has justified its refinement and extension of the same authoritarian structures as constituting a necessary element in the march towards economic development. This is one reason why the technocrats are important to the regime. The New Order defines itself as a modernizing, developmentalist state, its rule legitimized by the process of economic development. Using the type of arguments used in Huntington's concept of political order, the New Order further explains its monopoly of power and authoritarian rule as a necessary imposition of control over disintegrative and destructive social and political forces during the fragile interregnum between tradition and modernity.[24]

The social forces upon which the New Order state rests have become increasingly well-formed, well-defined and stronger, largely because international finance and industrial capital, largely absent during the Sukarno years, were reintegrated into a broad economic and political alliance. Most important, it is international capital, not of the old Dutch merchant variety but industrial and finance capital. In the seventeen years since the rise of the New Order, capital investment, both national and international, has expanded dramatically; industry now accounts for 13 per cent of GNP[25] and capitalist relations of production are beginning to establish a tentative hold in the countryside.[26] Petty capital has expanded far beyond the ranks of the traditional muslim merchants and petty commodity producers. Large national business groups have emerged, both Chinese and indigenous. Increasingly, the New Order state can be regarded as a capitalist state rooted in the social power of a growing bourgeoisie and consequently much stronger than the fragile, factionalized Sukarnoist state.

How can the New Order state be described as a capitalist state and as constituting the interests of a bourgeois coalition when it is the military, not the bourgeoisie who rule? The answer lies in a structuralist approach to the question. That is, we must look at structural relationships, not motives or formal political relationships. The New Order state does not operate as the instrument of the bourgeoisie or any of its factions (although I am not arguing that a state may not be

the virtual instrument of a specific class in specific circumstances) nor does it *represent* their interests. Instead the state *constitutes* the general interests of this coalition (once again, this is a coalition only in a structural sense, not necessarily in the sense that they are bound by formal political agreements or common institutional frameworks) by providing political, ideological and even economic conditions for their existence and for the process of capital accumulation. This can be seen by examining the policies of the state. Most important amongst these has been the elimination of the PKI and the removal of this most fundamental threat to private property. Land reform has been effectively abandoned, trade unions kept under tight control, finance and infrastructure provided for business. Development has been sought in the consolidation of existing class structures and in the concentration of wealth and power rather than in social change.

Why does the state provide the conditions for the escalation of capitalist transformation and therefore the consolidation of those classes whose dominance is embedded in such a social structure? Here we must leave the structuralist perspective and descend to the concrete and specific circumstances of the Indonesian case because, whilst we can speak of the "state" as constituting something and functioning in a specific way, we cannot reify the state and attribute motives to it. Therefore, we must examine the specific political and class structures of Indonesia.

Despite the fact that the military have been gradually able to construct a state apparatus which excludes the landowning and bourgeois allies from direct and public exercize of power they nevertheless rule with the support or acquiescence of these classes. Amongst landlords, middle classes, bourgeoisie and petty bourgeoisie, opposition to authoritarian rule by the military and absence of the rule of law is tempered by the fact that the New Order state has provided conditions which have so far enhanced their economic prosperity. Continuing economic development therefore assumes a special significance for the New Order. Through the development budget and such projects as *Bimas*, (providing credit for the introduction of agrarian development packages including new seed varieties, pesticides and fertilizers), the state has provided investment finance, infrastructure, subsidies and contracts.[27] As a basic level, therefore, the structural political alliance between state and bourgeois/landowning class alliance in Indonesia is one forged out of mutual necessity, mutual benefit, and out of a fear of alternatives.

In reality, the military had little choice in the way they set about the reconstruction of the economy. Given the ideological, social and political nature of the counter-revolutionary movement, socialist reconstruction was obviously unacceptable as an option. The state and the national bourgeoisie had proven unable to generate national capitalist development so reintegration within the international capitalist division of labour was, in hindsight, an unavoidable option. The adoption of the growth policies of the technocrats must be seen as a consequence of political and class conflict, not of the intrinsic superiority of economics. The generals embraced the Berkeley technocrats because they offered the policies most integral

to the interests of the counter-revolutionary coalition. They were ideologically acceptable to the foreign powers to whom the New Order was turning for assistance on economic rehabilitation, aid and investment. (Of course, as we shall see, foreign corporations and international financial institutions were later to be irritated that the initial enthusiastic, almost obsequious stance of the Berkeley technocrats developed into a much more cautious and ambivalent one). Equally important, however, the Berkeley technocrats offered a vision of economic development in which the existing social order could be maintained and entrenched. Economic growth was not to be predicated upon social reform or redistribution of wealth but upon increased capital investment, upon technology, upon concentration of economic and social power and upon the assumption that the demonstration effect and the process of trickle down would spontaneously diffuse the growth process.[28]

There is one final factor which cements the military-dominated New Order state to the bourgeois coalition. As will be discussed in much greater detail later, individuals and factions within the state apparatus have been drawn into concrete economic and business partnerships with national and foreign capital. Indeed, the major business groups which have emerged in Indonesia are generally constituted by alliances between international capital, national capital (often Chinese), and indigenous politico-bureaucrats representing themselves or political factions, and state capital. Consequently, politico-bureaucrats have developed a direct proprietary interest in the process of capital accumulation.

State and Capital under the New Order

a) The state as investor and financier

Because of the weakness of the national bourgeoisie, the accumulation process in Indonesia throughout the post-colonial period has been focused upon the state as an investor and financier as well as a provider of general policies necessary for private capital accumulation. The major source of capital for investment derives from revenues from oil mineral production and export and from foreign aid. In 1980, oil revenues constituted 70 per cent of foreign exchange earnings and 62 per cent of state revenues. In 1980-1, the state development budget was Rp. 5,916.1 billion of which 42 per cent came from loan funds and the remainder from state savings.[29] We can see how important this is if we compare it to the approved domestic investment which totalled Rp. 3,942.6 billion from 1967-79, and Rp. 688.7 billion in 1979.

The development budget primarily provides funds for projects both through government departments and through local and regional level programmes. These projects are a major source of contracts for private capital both for construction and supply. Direct finance for private and state capital through project loans and government loans is the other major component of the development budget. To December 1980, credit extended by domestic bankers totalled Rp. 7,548 billion (US$12,580 million) of which 29.4 per cent consisted of loans from the Bank of

Indonesia, 56.0 per cent from state-owned commercial and investment banks, 7.4 per cent from private domestic banks, and 5.3 per cent through foreign banks in Indonesia.[30] Indeed, the amount of credit available from the state to private capital exceeded the capacity to absorb it. Of the target for investment credit by state banks to the end of 1977, only 65.93 per cent was realized.[31]

The state also invests directly in production and economic organization through state-owned corporations. Various categories of state corporation provide different functions:

a) State banking corporations.

b) State corporations in the resources sector provide infrastructure, act as terminals for the allocation of oil, forestry and minerals concessions, supervize production-sharing agreements and collect taxes and royalties.

c) State corporations involved in direct investment in production, often in joint-ventures, in property, construction, resources and, most important, import substitution industrialization, notably in cement, petrochemicals and steel. The 1974-5 manufacturing figures show state corporations constituting about one-fifth of total output and value added. State firms produced 75.2 per cent of cement, 51.9 per cent of paper and paper products, 40.4 per cent of food manufacturing and 52 per cent of machinery.[32] Since then, extensive state investments have been made in both cement and petro-chemicals.

d) State corporations which organize the process of distribution, storage and pricing of basic necessities and therefore mediate social and economic crises. The procurement agency Bulog is the obvious example here, coordinating in particular the politically sensitive area of rice procurement, distribution and pricing.

The role of the state in the process of capital accumulation under the New Order clearly continues the Guided Economy objective of securing national ownership and control of strategic sectors of the economy, and building a national import substitution industrial sector. However, it may increasingly be seen as establishing the preconditions for private capital accumulation, both foreign and domestic. The general point to be made here is that the function of the state in capitalism is defined by the structure of social and political power specific to the society. A comparative look at state capitalism in the Third World would tend to indicate that where the dominant political force is an alliance of national bourgeoisie and nationalist political forces with some popular base, as was the case with the Sukarno state, the result tends to be state-led ISI. Where this political alliance breaks down, the national bourgeoisie and petty bourgeoisie, usually under the political leadership of the military, attempt to secure their political and economic interests within a larger bourgeois coalition including international capital. In this situation, the state will be more concerned with providing infrastructure and credit for private capital, investing in sectors not sufficiently profitable for private capital and mediating a complex process of integration between different sectors of the bourgeois alliance.[33]

b) The state and international capital

Whereas the dependency theorists viewed the state in peripheral or underdeveloped economies as politically facilitating exploitation and economic dominance by foreign capital where the national bourgeoisie was too weak to generate a national capitalist revolution, Warren[34] argued that Third World societies were reproducing the same national, capitalist, industrial revolutions which had taken place in Europe and North America. Clearly, dependency theorists were placed under pressure by mounting evidence that industrial development was taking place in the Third World, that strong national bourgeoisie were emerging and that Third World states were confronting international capital in the interests of protecting and expanding the accumulation of national capital and the economic power of the national bourgeoisie.

Leys has demonstrated, in the case of Kenya, that the state became bound into the process of national capital accumulation:

> The essential function of the state was to displace monopolies enjoyed by foreign capital and substitute monopolies for African capital and also supplement individual African capitals with state finance, capital and state secured technology, to enable them to occupy the space created for them in the newly accessible economic sectors.[35]

However, as Alavi[36] points out, a national bourgeoisie cannot be dismissed as a natural enemy of the international bourgeoisie and, indeed, if a national bourgeoisie is to expand beyond a certain limit it will need to integrate with international corporate capital to gain access to the capital, organizational and technological resources which cannot be developed at the national level. In this situation the state will be required to mediate the process of integration.

It is a fruitless exercise, therefore, to consider the function of the state in the context of an inherent conflict between national and international capital. A national bourgeoisie will generally wish to secure protection and subsidy in those sectors where its capital base enables it to operate alone, but will require the state to mediate its integration with international capital in sectors where its capital resources are inadequate, i.e. in high technology, capital intensive sectors such as oil, mining and the more complex manufacturing processes. International capital will generally demand freedom of movement for capital, profits and goods, and prefer to operate without the requirement that they accept significant national equity in their operations.

The specific configuration of the accommodation between national and international capital and the role of the state in this accommodation will depend upon:

a) The pattern of class power and conflict in the society concerned, most crucially the development of the economic and political power of the national bourgeoisie.

b) The location of the economy concerned in the international division of labour; whether or not it is attractive to international capital and in what sectors.

In the case of Indonesia, the New Order quickly implemented an economic policy based upon maximization of economic growth and the infusion of international capital. In order to attract an inflow of investment and aid, existing foreign debts were negotiated and a new foreign investment law (hereafter PMA) was promulgated in 1967, offering inducements to new foreign investors in the form of tax holidays and guarantees of profit repatriation.[37] There were also, of course, the political inducements for investors offered by a regime which had stamped out radical political forces, including organized labour, with such vigour.

Opposition to the technocrats' early open door policy came from several sources. The first were liberal intellectuals using a dependency-based approach critical of the outflow of profits and damaging effect on local industry but their capacity for effective political action was limited by almost total lack of a power base.[38] A more interesting critique came from the CSIS group (Centre for Strategic and International Studies-a Chinese Catholic-dominated secretariat/think tank associated with General Ali Murtopo) which argued that national capital is unable to develop effectively within the framework of an open door policy. They argued not for exclusion of foreign capital or isolated, self-reliant development, but for systematic state coordination of the development of national capital. This was to take place within the framework of nationally integrated economic units with the state providing coordination, protection and finance but with capital ownership remaining largely private. Integration of foreign capital was to be subject to wider requirements of planned national capitalist development. Such a concept borrowed heavily from models established by the Meiji state, the present Singapore state and even from the principles which underlay government attempts to coordinate and plan industrial production under Guided Economy.[39]

The nationalist, right-wing corporatism envisaged by CSIS has not found many supporters among the ranks of the major domestic bourgeoisie who have generally managed to either integrate profitably with foreign capital or hide behind state protection of national industry which began to develop in the 1970s. In any case, the type of coordination proposed by CSIS is of such complexity that it is clearly beyond the administrative capacity of the New Order state, not to mention the fact that it offers few inducements to the various military factions whose support would be needed to push such a strategy.

But the role of the New Order state mediating in the relationship between national and international capital was not determined by ideologies but by concrete economic and political conflicts and tensions which derived from the development of capitalism. Ultimately, it has been the power of national capital which proved decisive. On the one hand, the larger national bourgeoisie is anxious to benefit from the financial, capital and technological resources brought by the international corporations and in this objective its interests were served by legislation requiring foreign investors to take local partners. On the other hand, however, it requires protection from foreign capital in selected sectors, such as auto-assembly, construc-

tion, and cement manufacture where it felt it had sufficient capital resources to make large and profitable investments.

As mentioned earlier, these big national business groups have been able to secure state protection for a variety of reasons. In most cases such groups are partly owned by generals, ministers and other leading political and state officials whose interest in national capital accumulation has become proprietary rather than simply ideological. They have also been able to benefit from nationalist and anti-foreign sentiment which was an important component of the conflicts culminating in the 1974 Jakarta riots. Ironically, the economic nationalism expressed by the smaller indigenous petty bourgeoisie had been directed against the big conglomerates in general, including not only international capital but the business groups of the generals and their Chinese partners.

Following the 1974 riots, the government tightened regulations concerning the entry of international capital and by the mid-1970s, a whole range of sectors was closed to foreign investments where it was considered that national capital could operate without foreign partners. Foreign investors were required to take local partners and, within a period of ten years, to transfer 51 per cent of shares to these local partners.[40] However, as mentioned, it was not the small indigenous bourgeoisie, on whose behalf these nationalist moves were obviously taken, who benefited but the big national conglomerates. Apart from these restrictions imposed on foreign capital investment, national capital was also nurtured through protection and subsidy, particularly in the import substitution manufacturing sector.[41]

As Glassburner[42] has pointed out, the technocrats cannot be simply dismissed as agents of foreign capital. Their policies in the 1970s did place increasingly strict requirements upon international investors. This was not because of any ideological preference for national capital, indeed, the technocrats generally adhered to a policy of favouring those who could best generate growth and this usually meant big capital. However, after the oil crisis of 1973-5 and the explosion of oil-generated revenue, their increased bargaining position led the technocrats to pursue vigorously a policy of obtaining the best possible production-sharing arrangements with foreign oil and mineral producers, to place pressure on foreign investors to move into areas of higher value added investment. The most important example of the latter policy occurred in the forestry industry where cut logs were permitted to constitute only 30 per cent of export value, forcing companies into plywood production and other higher value added processing.[43]

By the late 1970s the backlash from international capital was well advanced. Specific complaints were made about the difficulties of investment in Indonesia-dealing with inefficient and corrupt officials, convoluted regulations and inadequate infrastructure. But most important, international capital objected to attempts by the Indonesian government to determine what sort of investment was to be made in Indonesia by means of protection and subsidy national capital and the establishment of priority and closed sectors for international capital investment. This

fundamentally contradicted the logic of the international division of labour within which international corporate capital freely located its investments on the basis of such factors as labour costs. Increasing pressure was placed upon Indonesia to reduce its regulation of international investment, to end subsidy and protection of import substitution industrialization and move to export-oriented industrialization.[44]

International corporations did not simply talk, they acted decisively by investing their capital elsewhere, especially in the field of manufacture. Total non-oil foreign investment declined from a peak of US$633.9 million in 1974 to US$346.6 million in 1980. In 1975, foreign investment in manufacture was at a peak of US$392.4 million but by 1980 had declined to US$235.4 million.[45]

The New Order state therefore found itself caught between the competing demands of national economic forces, particularly those powerful business groups in the ISI sector, and international capital. But there are signs emerging which suggest that resistance to the demands of international capital may be weakening. From 1975 to 1981, the government's increasing ability to impose specific demands on foreign capital and to capitalize the growth of national capital derived from increasing oil receipts. However, the 1980s have seen a rather disturbing downturn in Indonesian foreign exchange earnings from oil and non-oil exports.[46]

c) The state and national capital

The Indonesian national bourgeoisie and petty bourgeoisie may be divided into several categories:

i) A category of medium- and large-scale business groups which integrate finance and industrial capital and often taking the form of partnerships between indigenous politico-bureaucratic power, indigenous and Chinese capital.

ii) A category of small- to medium-scale indigenous bourgeoisie and petty bourgeoisie within which we may identify two categories:

a) Long-established, muslim-oriented capitalists involved in traditional sectors of indigenous enterprise: trade in agricultural products, manufacture of textiles, batik, kretek, foodstuffs and beverages.

b) Newer enterprises, with access to state contracts and credits, often with links to officials or state political organization, (*Golkar*). operating in the transport and service sectors as well as manufacture.

iii) A small- to medium-scale Chinese bourgeoisie and petty bourgeoisie involved in trade, processing of agricultural products, workshop manufacture and the service industry.

One of the most significant developments under the New Order has been the growth of state-sponsored private business groups. Their emergence cannot be explained in terms of the normal processes of capital accumulation, and their relationship to the state cannot be explained in terms of interaction between "state" and "capital" expressed through public policy. Instead, the relationship has, to a

significant degree, linked specific centres of politico-bureaucratic power to specific business groups. At the heart of this type of relationship is the capacity of politico-bureaucrats to appropriate state authority, resources of powers for private use.

In the late 1960s, individual generals, political cliques, military commands, ministers and governors established or expanded business groups, generally with Chinese partners, based upon their capacity to appropriate and provide privileged access to public credit and various monopolies, concessions, contracts and licenses. To a large degree these early business groups were opportunist dealers in contracts, monopolies and concessions or, at the very best, depended upon windfall profits from politically secured strategic positions in the import sectors, in forestry or in contracting to the state.[47]

However, this "cargo cult"[48] approach to accumulation subsequently developed, during the 1970s, into the basis for increasingly consolidated and large-scale business groups involved in the process of capital accumulation, particularly in the industrial sectors. The Liem Sioe Liong/Suharto group, for example, is now a major regional corporate groups with interests in banking and finance, industry, trade and property.[49] A sufficient proportion of the windfall profits derived from extortion appear to have been reinvested to transform what we might term primitive accumulators into capitalists. Whilst the initial accumulation of capital was made possible by the exercize of political power, the accumulation process, once under way, is now following a more normal path of accumulation through the generation of profits by capital investment. This is not to deny that the major business groups still enjoy politically secured and privileged access to state-controlled contracts and concessions.

Two persistent conflicts internal to the national bourgeoisie have been those between large and small capital and between indigenous and Chinese capital. Under the New Order we may say that this conflict has slowly evolved into one between a declining indigenous petty bourgeoisie and the larger national bourgeoisie as constituted within the major business groups. Although the political protest of the indigenous petty bourgeoisie has tended to manifest itself in anti-Chinese action, it is in reality addressed to the total alliance of big capital: the generals in business, their Chinese partners, the political and economic relations which bind them to the broader economic strategies of the technocrats which are not sympathetic to small capital.

In 1965, the indigenous petty bourgeoisie constituted a frustrated, poorly organized and economically battered class. Political independence had not arrested the continued deterioration of their economic position. State programmes and policies of subsidy and protection for domestic capital had primarily benefited state corporations, the larger Chinese business groups and the indigenous politico-bureaucrats.[50] Indigenous bourgeoisie and petty bourgeoisie also proved less able to escape from or cope with the inflation, shortages and infrastructure collapse which characterized the 1950s and early 1960s.[51] Policy-makers, both radical and

conservative, also tended to be unsympathetic to introducing any cohesive policy of protection or financing small, indigenous capital.

Ultimately, their failure was a consequence of their very political and economic weakness and we may simply argue that these petty bourgeoisie represent a vanishing remnant of an earlier merchant/petty commodity production phase of capitalism. However, such petty bourgeoisie have generally proven persistent and resilient during the drawn out process of transition to capitalism throughout the Third World. In political terms, this class has proven a constant irritant in Indonesia to a state which has been dominated by a Javanese civil and military bureaucracy.

A virulent anti-Chinese tradition has characterized petty bourgeoisie political movements in Indonesia. It characterized the Sarekat Islam movement of the 1910s and 1920s and was resurrected in the late 1950s by the Asaat movement.[52] But the indigenous petty bourgeoisie does not only represent or symbolize anti-Chinese sentiment, it also constitutes a most important and complex politico-cultural challenge: Islam against the Javanism of the officials, the outer islands against Java, the countryside against Jakarta. In short, the muslim petty bourgeoisie may never have been able to pose a serious threat to the Indonesian state but has always had the potential to mobilize sentiments or prejudices with a popular appeal and, for this reason, the state has been forced to treat this class with caution.

With the introduction of the Domestic Capital Investment Law (PMDN) in 1968, domestic investors were given a variety of tax and import duty concessions, priority in certain sectors of investment and access to state credit. The indigenous bourgeoisie and petty bourgeoisie, hard hit by inflation, found their liquid assets inadequate, not only for expansion of their capital base but for collateral requirements for investment credit. By 1973, only 17 per cent of state investment credit allocated under PMDN was being directed to indigenous businesses, and it was estimated that only 20 per cent of private capital invested under PMDN was indigenous.[53] Of course, the vast bulk of the indigenous petty bourgeoisie operated outside the PMDN provisions and therefore at considerable disadvantage to PMDN and PMA investors who enjoyed tax concessions and access to cheaper imports of raw materials and technology.

The protest of the indigenous petty bourgeoisie gathered strength in the early 1970s, parallel with the movements associated with growing student discontent with military rule and the direction of economic strategy. Muslims newspapers, *Abadi* and *Nusantara* voiced the concerns of the indigenous petty bourgeoisie that the resources and policies of the state were being channelled into building major economic alliances between generals and big Chinese business groups. Such resentment, associated specifically with the increasing difficulties of indigenous textile producers and more generally with the ever present social tension between indigenous Indonesians and Chinese, was a contributing factor in the Bandung riots of October 1973, and the Jakarta riots of January 1974.[54]

Following the Jakarta riots, the government moved to defuse the tensions by

introducing a series of regulations designed to redress the perceived imbalances between indigenous, Chinese and foreign capital. These included:

1) A requirement that state bank credit be made available only to indigenous companies.

2) A requirement that, within ten years, companies investing under PMDN be 75 per cent owned by indigenous investors, or 51 per cent where management was in indigenous hands.

3) A requirement that 51 per cent ownership of companies investing under PMA be in the hands of national investors within ten years.

4) Expansion of state credit schemes and advisory programmes for indigenous small business.

These regulations constituted a direct confrontation with the normal logic of the process of capital accumulation. The indigenous petty bourgeoisie had previously received a small share of state bank credit, not only because they exercised little political influence but because in terms of normal banking criteria, they were a poor credit risk. Since the introduction of the requirement that bank credit be directed to the national bourgeoisie, it has been demonstrated that only a proportion of the national business firms possess the existing capital or organizations resources to use this credit effectively for purposes of accumulation. Credit targets remain unfulfilled and a low proportion of loans are repaid. Nevertheless, state credit programmes have continued to channel finance to the indigenous petty bourgeoisie and state banks have been ordered to accept the low rates of repayment.[55]

As far as proposed transfer of equity from foreign to national and indigenous shareholders is concerned, neither the state nor the indigenous bourgeoisie or petty bourgeoisie possessed the finance to purchase the equity which came within the scope of such regulations. In effect, foreign and Chinese corporations were being asked either to provide credit for indigenous partners to purchase equity, or simply to hand over the equity.[56] Despite relaxation of the strict terms of the schedule, the government has maintained its pressure upon the principle of transfer to a surprising degree. General policies of protection for the petty bourgeoisie have also been introduced since 1974, most important were the Keppres (Presidential Decisions) 14, 14a, 18 and 20, introduced in 1980 and 1981, giving preference to small indigenous contractors in tendering for government contracts below the value of Rp.100 million.[57]

Quite clearly, however, the state has avoided moving against foreign and Chinese capital to the extent that the muslim petty bourgeoisie would have liked. Both are indispensable to the structure of capitalism in Indonesia and, in any case, are bound to the major centres of politico-bureaucratic power by concrete business alliances. If we take into account the experience of the past, we must also expect that a sizeable proportion of the credit, transferred equity and preferential contracts will not go to the traditional muslim bourgeoisie but to indigenous business groups owned by politico-bureaucrats and their clients and associates.

Although no comprehensive studies have been made of the indigenous petty bourgeoisie it has manifestly not been wiped out by big capital, indeed, in the service sectors, particularly transport[58] it would appear to thrive. But there may be a significant change in the political nature of this petty bourgeoisie involving a decline amongst old muslim trading and petty commodity production sections (especially in textiles and batik), and a rise of new petty capitalists who derive their finance from state credits and salary savings. There are clear indications that a nascent kulak/absentee landowning class is being constituted around capital invested by urban civil and military officials rather than capital accumulated by traditional, muslim landowners from rental income. In short, the new petty bourgeoisie and landowners/kulaks are much more likely to be tied into networks of patronage emanating from *Golkar* and the military rather than the remnants of the muslim parties, and much more dependent upon access to fertilizer subsidies, state bank credits, *Bimas* credits, contracts for local *Inpres* and *Banpres*[59] programmes than upon income from rents.

Political and Economic Tensions Within the New Order State

a) Economic Growth—Fiscal Crisis and Political Order

As we have seen earlier it has been argued by Anderson that the seeds of political instability in Indonesia are being created by the very success of the New Order in excluding opponents from power as well as centralizing and consolidating power within the ruling military group itself. It is true that there is considerable evidence of a pervading resentment of the privileges appropriated by the military, of the authoritarian nature of military rule, and the corruption of political leaders and the arbitrary application of law, felt by those former supporters and allies shouldered aside by the military, notably the urban middle classes: the managers, technicians, civilian bureaucrats, students and intellectuals. Publicly and privately, student leaders and intellectuals have long argued for termination or modification of the economic and political role of the military, the regularization of the state apparatus, the liberalization of politics and the rule of law.[60] In the last few years they have been joined by former military officers and political leaders including generals Nasution, Sadikin, Dharsono and Jassin, all losers in the process of increasing centralization of economic and political power.[61] But opposition to or support for the state is not determined solely by inclusion or exclusion from political power; a crucial factor is whether or not the government is able to produce conditions of economic prosperity for at least the strategic social and economic forces.

Despite the considerable frustrations and the open criticisms by important elements of the urban middle class in Indonesia, they have generally done well out of the type of capitalist development which has occurred under the New Order. Civil service salaries rose over 1,000 per cent in the 1970s, employment opportunities have been created with foreign and state enterprises, imported consumer goods and

better housing have become increasingly available for the upper echelons of managers and officials. In the present situation, therefore, it is unlikely that they would support any moves for a radical restructioning of society or reallocation of wealth, nor could they be expected to willingly accept the privations or suffer the upheavals necessarily associated with the implementation of policies of radical economic nationalism. In short, their quiescence in the New Order is a function of the continuing development of their relative prosperity which is in turn based upon continuing economic growth.

In specific terms, the state has directly ensured that the social groups structurally necessary to the political dominance of the military have been major beneficiaries of the process of growth. This is achieved largely through the development budget and the regular budget in the following ways.

a) Subsidies for purchases of pesticides, fertilizers and seed by farmers.

b) Opportunities for contractors and suppliers to participate in development projects implemented through government departments, or special *Inpres* and *Banpres* schemes at the regional and village level.

c) Provision of credit for indigenous business, in particular the special schemes for low interest credit.[62]

There have, however, emerged clear signs of strains upon the capacity of the state to maintain economic growth and levels of state expenditure through the budget. Foreign exchange earnings from oil and levelling off and earnings from non-oil exports have shown a sharp drop. Consequently there was a total revenue increase of 12.3 per cent for 1982-3 compared with an increase of 31.7 per cent for the previous year. This was due to a rise in oil revenues of only 6 per cent compared with more than 50 per cent in 1981-2. The state has dealt with this problem by slashing subsidies for fuel and basic commodities to the value of Rp. 750 billion. In this way, an increase of 35 per cent in the development budget has been made possible, although a decrease of 7 per cent was necessary in the regular budget.[63]

The state has responded to the fiscal crisis by reducing its expenditure on its legitimation functions rather than interfering with the level of its support for the accumulation process. The immediate question posed by this strategy is whether or not the increase in price of basic commodities, coming on top of substantial increases associated with the devaluation of 1978 will impose intolerable hardships upon the ordinary peasants and workers, rural landless and urban unemployed who will bear the brunt of the new costs.

In any case, these cuts do not solve the basic problem, which is a decline in export earnings and of foreign investment in the non-oil sector. If the rate of increase of revenue and investment from these sectors continues to fall, which appears likely, the government will have to go further than cutting subsidies. A second option involves capitulation to the IBRD demands in the hope that a massive injection of foreign capital will replace lost oil revenue with export earnings from manufactures. This of course would alienate those sectors of the national bourgeoisie in the ISI

sector. A further possible measure is to increase the amount of domestic revenue collected, a feat of considerable magnitude which would involve transforming the efficiency, honesty and powers of the tax collection apparatus.[64]

Essentially, I am arguing here that the maintenance of political order and the dominance of the military is not as reliant, as political order theorists would suggest, upon direct incorporation of various social power groups into the apparatus of the state, in a formal, institutional way or through informal client-patron arrangements. Undoubtedly, the incorporation of non-military groups into the power structure as ministers, officials of *Golkar* and members of patronage groups does impose a kind of corporatist cement. But it is the capacity of the state to constitute the interests of dominant social groups which is crucial, and for this we must examine not who occupies the state apparatus, but what the state does. Indeed, this is how the New Order sees the problem and it is in these terms that it seeks to legitimate its rule. The failure of the state to carry out this structural task increases the likelihood of social forces attempting to seize the state to ensure that their interests are served. It is in the light of these considerations that the fiscal pressures upon the state become of political significance.

b) The State and the Regularization of Authority

The power of the military rulers of Indonesia is, to a significant degree, built upon their capacity to appropriate state power and bureaucratic authority. These appropriated powers are used in two ways: to secure large sources of income from non-budgetary sources to finance their political survival, and to distribute largesse or economic opportunities to political clients and family members. The ruling groups within the New Order are well placed to do this because of the strategic economic position of the state. Through various state corporations and departments it controls the allocation of forestry and oil drilling concessions, the allocation of distributorships of basic commodities, and the allocation of import and export licenses, sole agencies and bank credit. Through the development budget, in turn channelled through departments and development projects, it controls the allocation of contracts for supply and construction. Indeed, no business can be established under PMA or PMDN regulation without the state approval.[65]

Since the New Order came to power there have been continuing political and economic pressures to regularize authority and impose the rule of law—in Weberian terms, to transform the form of bureaucratic power from patrimonial to legal-rational.

The first of these pressures is political. Corruption has become one of the most volatile political issues of the New Order period and one of the most constant and visible remainders of the absolute power of the rulers and of the frustration of those excluded from power.

Although it has been claimed by many liberal Western observers that corruption is culturally acceptable to Indonesians, this is both inaccurate and, to be quite

blunt, rather racist. Corruption is not acceptable to Indonesians, apart from those engaged in it, for the very same reasons it is not acceptable to the average Westerner; it penalizes the poor, the politically weak and corrodes confidence and respect. Corruption is not a component of Indonesian culture but is an extra means of exploitation of the weak by the powerful, imposed by force. It may be argued that corruption has been a major focus of resentment and resistance of the 1970s. Indeed, the government has been forced to respond in form at least, carrying out several enquiries into corruption and several anti-corruption drives, all of which, however, have left the major terminals of corruption untouched.[66] Whilst middle-class opponents have not possessed the political power to impose the sovereignty of the law upon the generals, the state has come under far greater pressures from opposition generated by contradictions between corruption and capital accumulation.

In advanced industrial capitalist societies, the state most effectively provides the conditions for accumulation through fiscal and monetary policies which serve the general class interests of the bourgeoisie. The relationship is a general one between state and capital in which power is normally exercized publicly and in which discrimination is not normally made between companies. In Indonesia, however, the relationship between state and capital is, to a significant degree, a relationship between specific power groups and specific companies wherein the success or failure of individual companies is heavily dependent upon access to political patronage.

Those business groups which have flourished in Indonesia have so far benefited greatly from access to licenses, import monopolies, construction and supply contracts, credit, distributorships and forestry concessions allocated by power centres within the state apparatus.[67] Payoffs, contributions, equity and directorships for military units, generals and other officials and their families have become simply another operating cost.

Corruption may be argued to have two advantages; it makes action possible in a ramshackle, moribund and inefficient bureaucracy, and it facilitates the early stages of the accumulation process by guaranteeing certain groups generous access to monopolies, contracts and credit. Nevertheless, corruption interferes with the state's function in providing a legal and administrative framework for the regularized operation of business, particularly where large, long-term investments in industry are concerned. Capital is faced with uncertainty and insecurity where regulations, laws and agreements may be overridden by an informal network of politico-bureaucratic arrangements. The capriciousness of Jakarta palace politics becomes a central factor in the success or failure of investments. There is little doubt that this uncertainty has been a significant factor in the decline of foreign investment in industry in Indonesia since 1975.[68]

Whilst it is true that the major national business groups have benefited from integration with centres of politico-bureaucratic power, and whilst it is true that

power has stabilized and concentrated over the last decade, there remains a constant threat of instability. Major national business groups continue to be subject to dramatic and immediate devastation by a change in political fortune attesting to the continuing importance of political pitfalls.[69] The continuation of appropriated state power is becoming a diminishing advantage to those major business groups which have already established themselves on a firm basis of accumulation, with large capital assets and developed corporate structures and, of course, have more to lose than a simple trading monopoly. As long-term profits for these groups become more clearly guaranteed and secured by the normal process of capital accumulation rather than by cultivating and paying off patrons, we may expect the national industrial bourgeoisie to become increasingly anxious about regularization of the state apparatus and establishment of the rule of law.

Indeed, the politico-bureaucrats themselves are being dragged into this contradiction. Whilst they remained simply dealers in licenses and concessions they had no necessary or structural interest in the survival of any one corporate group. However, politico-bureaucrats, their families and political associates, military commands and factions are establishing equity in the major business groups. As owners of capital, their interests have now become embedded in the accumulation process, and therefore potentially contradictory to their political interests in exerting a patrimonial influence over the economy. Generals whose families have been established as capital owners must now contemplate the economic consequences of their retirement.

Two final sets of contradictions remain. Firstly, those between the channelling of state funds into the construction of an effective physical infrastructure for capital accumulation, and the financial needs of those politico-bureaucratic groups who dominate the existing tendering process and who succeed in diverting a significant proportion of these funds.[70] Secondly, as we have mentioned earlier, there is the contradiction between corruption and the establishment of an effective tax revenue collection system. Ultimately, the resolution of the corruption question will depend upon:

a) The degree to which the politico-bureaucrats see the appropriation of state resources and the manipulation of economic policy as fundamentally damaging to the wider process of economic growth. This dilemma can best be illustrated by the reaction of the state to the Pertamina crisis of 1975-6. The massive debts incurred by the oil giant ($10.4 billion) forced the state to hand control of Pertamina over to the technocrats until the immediate threats of the crisis had been dealt with.

b) The degree to which the process of corruption contradicts the development of corporate capital and the extent to which corporate activity in Indonesia develops its capital base to the point where the risks of basing growth upon access to patronage as a generalized mode of operation outweigh the difficulties of competing within a regularized political and economic system.

Conclusion: Paths of Capitalist Revolution and the Future of the State in Indonesia

The present circumstances in Indonesia provide the logical preconditions for three likely paths of capitalist revolution and the development of the capitalist state. One of these is the technocratic, authoritarian developmentalist path of such countries as South Korea, Brazil and Singapore. A second is a nationalist, populist path, represented by the Peronist state, or, in its petty bourgeois variant, by the post-Shah Iranian state. Finally, we must consider the path of capitalist decline, and look to Vietnam under Diem or China under the Kuomintang as broad models.

In several important respects, the New Order state can be considered to be moving towards the model of an authoritarian developmentalist state currently epitomized by South Korea and Brazil. A military dominated and increasingly bureaucratic state apparatus exists in a relative vacuum of social and political power, reflected in an absence of influential and powerful political parties representing the interests of specific classes. The process of economic growth and industrialization is drawing the state further into the accumulation process, financing infrastructure and investment, securing social and political order and a disciplined, docile, low-wage labour force, and providing appropriate fiscal and monetary policies for capital investment. The move towards integration of the Indonesian economy within the New International Division of Labour is already reflected in increasing economic power of alliances of international corporate capital and those major Indonesian-based business groups which become linked into international corporate groups and the process of export-oriented manufacture. The already high levels of state reliance upon externally derived sources of revenue and political support have also guaranteed a significant degree of autonomy from mass-based domestic, political and social support.

However, we must remember that Indonesia has a far larger population (and predominantly peasant) than South Korea, Brazil or other similar Third World capitalist economies and a far lower base of industrialization. Foreign investment in the non-oil sector is not large.[71] The development of an industrial economy will take several decades of high growth rates. Fiscal problems confronted by the state in financing this growth, the general reluctance of foreign capital to invest in industry and the resistance of the national bourgeoisie entrenched in ISI manufacture to integration into the New International Division of Labour suggest that the path to strong corporate authoritarian developmentalist state power and export-oriented industrial capitalism is neither the inevitable nor even the most likely course.

Given the growing economic power of the larger national bourgeoisie, their economic and political incorporation with the military politico-bureaucrats and their success in securing state protection and subsidy for ISI manufacture, it is equally likely that capitalism will develop within a predominantly ISI framework.

This may not make much difference to the demands upon the state to play a central role in the accumulation process or to impose a social order conducive to the needs of accumulation. The technocratic and authoritarian features of the state may be no different. But there is an increased likelihood that a bourgeois-dominated political party, perhaps in alliance with elements of the military, and even led by former generals, would replace the type of military rule now in existence. Given a greater emphasis upon protection and subsidy of domestic capital accumulation and revenue sources, a greater need for accommodation with domestic political and social forces would necessitate more populist or even democratic political forms. Perhaps the Petisi Limapuluh group discussed earlier is the clearest example of such a tendency.

Rather than concentrating upon a model of large-scale, capital-intensive development from above, led by the state and international capital, it may be important to consider capital accumulation from below, generated not only by the big national bourgeoisie but by small- and medium-scale business groups, the national petty bourgeoisie, and small- and medium-scale capitalist farmers. Little systematic research has been conducted on accumulation at this level but one of the most visible results of economic growth in the last decade has been the emergence of a relatively prosperous petty bourgeoisie and small- and medium-scale bourgeoisie in the service sector. If such a surge is expanded and sustained, the prospects for a new stage of political populism and economic nationalism are very real, based upon a far stronger class foundation than Guided Economy and Guided Democracy in the first half of the 1960s.

Finally, we must consider the possibility of stagnation and decline in capitalist development. As we have seen, the capacity of the state to generate growth and investment is very heavily predicated upon oil revenue. Given increased domestic consumption, lower rates of increases in production and prices, this source will need to be supplemented with other exports. However, given the extremely cautious attitude towards investment in Indonesia by foreign capital and the deepening international recession, export-oriented industrialization may not be able to fill this gap. Such difficulties will be compounded by demands upon servicing the mounting national debt.

A slowdown in growth implies an attendant impact upon living standards, job opportunities and business profitability which will severely damage, if not destroy, the compact between the state, the national bourgeoisie and the middle classes. Further, it will weaken the influence of the technocrats and strengthen the hand of military strongmen who operate at the head of patron-client networks. In this scenario an increasingly factionalized and corrupt state will confront revolt and resistance from populist social and political coalitions.

For the immediate future we must favour some sort of tension between the first two models. On the one hand, the impulse towards a centralized, military-dominated, corporate, authoritarian state presiding over an increasingly industrialized

economy characterized by high growth rates. On the other, a populist but authoritarian regime of military and party forces presiding over a nationalist ISI economy with lower rates of growth and a burgeoning petty bourgeoisie and kulak class.

Notes

1. Donald K. Emmerson, *Indonesia's Elite: Political Culture and Cultural Politics*, (Ithaca, Cornell University Press, 1976); Karl D. Jackson, "Bureaucratic Polity: A Theoretical Analysis of Power and Communications in Indonesia," and "The Political Implications of Structure and Culture in Indonesia," in Karl D. Jackson and Lucien W. Pye (eds), *Political Power and Communications in Indonesia*, (Berkeley, University of California Press, 1978); R. William Liddle, "Modernizing Indonesian Politics," in R. William Liddle (ed.), *Political Participation in Modern Indonesia*, (New Haven, Yale University Southeast Asian Studies, Monograph Series, No. 19, 1973). For a critique of these approaches see: R. Robison, "Culture Politics and Economy in the Political History of the New Order," *Indonesia*, No. 31, April 1981.
2. Fred W. Riggs, *Thailand: The Modernization of a Bureaucratic Polity*, (Honolulu, East-West Centre Press, 1968).
3. This aspect is developed by Ken Ward in "Indonesia's Modernization: Ideology and Practice" in Rex Mortimer (ed.), *Showcase State*, (Sydney, Angus & Robertson, 1973) and by Peter Britton in "The Indonesian Army: Stabiliser and Dynamiser," in Rex Mortimer (ed.), 1973.
4. The volume of economic growth-based political analysis is extensive. See: John M. Allison, "Indonesia; Year of the Pragmatists," *Asian Survey*, Vol. 9, No. 2, 1969; Guy J. Pauker, "Indonesia: The Age of Reason?," *Asian Survey*, Vol. 8, No.2, 1968; H. W. Arndt, "Economic Disorder and the Task Ahead," in T.K. Tan (ed.), *Sukarno's Guided Indonesia*, (Brisbane, Jacaranda, 1967); H.W. Arndt, "Development and Equality: the Indonesian Case," *World Development*, 1975; Bruce Glassburner, "Indonesian Economic Policy after Sukarno," in Bruce Glassburner (ed.), *The Economy of Indonesia*, (Ithaca, Cornell University Press, 1971); Bruce Glassburner, "Political Economy and the Suharto Regime," *Bulletin of Indonesian Economic Studies*, (henceforth *BIES*), Vol. XIV, No. 3, November 1978.
5. Perhaps Peter McCawley's work on industrial policy best illustrates this concern. He sees the interests of state bureaucrats and a small group of national industrialists producing an import substitution industrial sector bolstered by protection and subsidy, thereby constituting an obstacle to efficient, export-oriented industrialization exploiting comparative advantage. See: Peter McCawley, *Industrialization in Indonesia*, (Canberra, Development Studies Centre Occasional Paper, No. 13, Australian National University, 1979).
6. Mortimer's major piece on the New Order regime as a comprador patrimonial amalgam is, "Indonesia: Growth or Development" in Rex Mortimer (ed.), 1973. The importance of patron-client political relationships and the weakness of class-based political relationships and the weakness of class-based political organization is discussed in Rex Mortimer, "Class, Social Cleavage and Indonesian Communism," *Indonesia*, No. 8,1969.
7. Ben Anderson, "Last Days of Indonesia's Suharto?," *Southeast Asia Chronicle*, Issue No. 63, July, August 1978; Herbert Feith, *The Indonesian Student Movement of 1977-78*, Mimeo, Monash University, Centre of Southeast Asian Studies, 1978.
8. Colin Leys, "Capital Accumulation, Class Formation & Dependency—the Significance of the Kenyan Case," *The Socialist Register*, (1978), p. 245.
9. Robin Luckham, "Militarism; Force, Class and International Conflict," *Institute of Development Studies Bulletin*, Vol. 9, No. 1, July 1977.
10. Herbert Feith, "Repressive Developmentalist Regimes in Asia; Old Strengths, New Vulnerabilities," *Prisma*, No. 19, December 1980.
11. Perhaps the best general overview of the development of the Chinese bourgeoisie and petty bourgeoisie is given by George Kahin in Chapter One of his *Nationalism and Revolution in Indonesia*, (Ithaca, Cornell University Press, 1952). The economic role of the Chinese in Indonesia since independence has not received the attention it deserves, possibly because of the

politically sensitive nature of the topic, the necessarily secretive nature of Chinese business activity and, I would argue, the inadequate theoretical basis from which their position is usually analysed. For some insights see: K.D. Thomas and J. Panglaykim. *Indonesia—the Effect of Past Policies and President Suharto's Plans for the Future*, (Melbourne, Committee for Economic Development of Australia, 1973, pp. 68-71); J.A.C. Mackie (ed.), *The Chinese in Indonesia*, (Melbourne, Nelson, 1976).

12. A useful overview of the indigenous bourgeoisie and petty bourgeoisie in the late colonial and early post-colonial period is to be found in J. Sutter, *Indonesianisasi* (Ph.D. Thesis, Cornell University, 1959, University Microfilms, Part 1 and Chapter VI of Part II). For a specific case study see: Lance Castles, *Religion, Politics and Economic Behavior in Java: the Kudus Cigarette Industry*, (New Haven, Yale University Cultural Report Series No. 15, Yale University Press, 1967).
13. Onghokham, *The Residency of Madiun, Priyayi and Peasant in the Nineteenth Century*, (Ph.D. Thesis, Yale University, 1975, University Microfilms, 1978, pp. 109-50).
14. There are numerous sources on this, see: J. Elisio Rocamora, *Nationalism in Search of an Ideology*, Ph. D. Thesis, Cornell University, 1974, pp. 180-5; J. Sutter, 1959, *op. cit.*, pp. 997-1072.
15. Sanusi Achmad, *The Dynamics of the Nationalization of Dutch Owned Enterprises in Indonesia*, Ph.D. Thesis, Indiana University, 1963.
16. T.K. Tan, "Sukarnian Economic," in T.K. Tan (ed), 1967. K.D. Thomas and J. Panglaykim, 1973, Chapter III.
17. J. van der Kroef, "Indonesia's Economic Future," *Pacific Affairs*, Vol. 32, No. 1, March 1959, pp. 53-5; K.D.Thomas and J. Panglaykim, 1973, *op cit.*, pp. 56-9.
18. United States Survey Team to Indonesia, *Indonesia: Perspective and Proposals for United States Economic Aid*, New Haven, Yale University Southeast Asian Studies Centre, 1963, p. 12; J.A.C. Mackie, "The Indonesian Economy, 1950-63," in Bruce Glassburner (ed.), 1971, *op. cit.*, pp. 28-34 and p. 42.
19. J Furnivall, *Netherlands India: A Study of Plural Economy*, (Cambridge University Press, 1939, pp. 317 and 436).
20. Heinz Arndt, "Economic Disorder and The Task Ahead," in T.K.Tan (ed.), 1967, *op. cit.*, pp. 130-1.
21. Rex Mortimer, *The Indonesian Communist Party and Land Reform*, (Melbourne, Monash University Centre of Southeast Asian Studies, Papers on Southeast Asia, No. 1, 1972).
22. Rex Mortimer, 1969; Anonymous, "A PKI Self-Criticism," in Herbert Feith and Lance Castles (eds), *Indonesian Political Thinking: 1945-65*, (Ithaca, Cornell University Press, 1970, p. 270).
23. This question will be treated in some detail in part 4 of this chapter dealing with the state as an investor and financier.
24. Ali Moertopo, *The Acceleration and Modernization of 25 Years Development*, (Jakarta, CSIS, 1973).
25. The growth rate for manufacturing was 8.2 per cent from 1965-71 and 13.3 per cent from 1971-7, in comparison with 1.9 per cent from 1953-9 and 2.1 per cent from 1960-5. By 1980, manufacture comprised 13.4 per cent of GDP compared with 8.5 per cent in 1953. See: Ann Booth and Peter McCawley, "The Indonesian Economy since the mid-Sixties," in Anne Booth and Peter McCawley (eds), *The Indonesian Economy During the Suharto Era*, Kuala Lumpur, Oxford University Press, 1981, pp. 4 and 5; D.T. Healey, "Survey of Recent Developments," *BIES*, Vol.XVII, No. 1, March 1981, p. 34; R. Daroesman, "Survey of Recent Developments," *BIES*, Vol. XVII, No.2, July 1981, p. 3.
26. Income distribution, the role of wage labour, landownership and capital investment have yet to be subjected to systematic analysis in terms of the development of capitalist class relationships. Nevertheless, the indications are that agrarian capitalism is at last emerging. See: Howard Dick, "Survey of Recent Developments," *BIES*, Vol. XVIII, No. 1, March 1982, pp. 25-7; Arum Abey, Anne Booth and R.M. Sundrum, "Labour Absorption in Indonesian Agriculture," *BIES*, Vol. XVII, No. 1, March 1981; William L. Collier. *et. al.*, "Tebasan System, High Yielding Varieties and Rural Change," *Prisma*, 1, 1 May 1975.
27. Some idea of the significance of the government development expenditures is given by R. Daroesman, 1981, *op. cit.*, p. 13. Some comments on the distribution of finance injected into the

rural economy amongst social categories in made in Abey, Booth and Sundrum, 1981, *op. cit.*, and Dick, *op. cit.*, 1982.

28. A general statement of the economic philosophy of the technocrats is to be found in Mohammad Sadli, "Reflections of Boeke's Theory of Dualistic Economies," in Bruce Glassburner (ed.), 1971, *op. cit.* The most detailed statement of the position of the technocrats is to be found in the collection of works entitled *Masalah-Masalah Ekonomi dan Factor-factor Ipolsos*, (Jakarta, LEKNAS—Lembaga Ekonomi dan Kemasjarakatan Nasional, 1965).
29. See figures for realized Repelita II and planned Repelita III Government Receipts and Expenditures; Ann Booth and Amina Tyabji, "Survey of Recent Developments," *BIES*, Vol. XV, No. 2, July 1979.
30. Taken from tables provided in: Peter McCawley, "Growth and the Industrial Sector," in Anne Booth and Peter McCawley, 1981, *op. cit.*, p. 66; Boediono, "Survey of Recent Developments," *BIES*, Vol. XVI, No. 2, July 1980, p. 29.
31. Indonesian Commercial Newsletter (henceforth ICN), Jakarta, No. 112, 23.10. 1978, pp. 10-13 and ICN No. 166, 26.1.81, pp. 1-2.
32. Taken from figures provided in the 1975 industrial census, Jakarta, Badan Pusat Statistik.
33. Relationship between social and political structure and the nature of state capitalism is dealt with in: James Petras, "State Capitalism in the Third World," *Journal of Contemporary Asia*, Vol. 6, No. 4, 1976; J.Leal, "The Mexican State: 1915-1973, An Historical Interpretation," *Latin American Perspectives*, Vol. II, No. 2, 1975; R.Munck, "State, Capital and Crises in Brazil: 1929-1979," *The Insurgent Sociologist*, Vol. IX, No. 4, 1980.
34. Bill Warren, "Imperialism and Capitalist Industrialization," *New Left Review*, No. 81, 1973.
35. Colin Leys, 1978, *op. cit.*, p. 251
36. Alavi states that:
    as the erstwhile "national bourgeoisie" grows in size and aspired to extend its interest from industries which involve relatively unsophisticated technology (such as textiles) to those which involve the use of highly sophisticated technology (such as petrochemicals and fertilizers) they find that they do not have access to the requisite advanced industrial technologies. Their small resources and scale of operation keep the possibility of independently developing their own technology out of their reach...they have to turn for collaboration, therefore, to the bourgeoisies of the developed metropolitan countries or to the socialist states.

    The concept of a "national" bourgeoisie which is presumed to become anti-imperialist as it grows bigger, so that its contradiction with imperialism sharpen further, is one which derives from an analysis of the colonial and not the post-colonial experience.

    Hamza Alavi, "The State in Post-Colonial Societies," in Gough, K. and Sharma P. (eds.) *Imperialism and Revolution in South Asia*, N.Y., Monthly Review Press, 1973, pp. 164-5.
37. For an overview of the process of Indonesia's reintegration into the international capitalist economy see K.D. Thomas and J. Panglaykim, 1973, *op. cit.*, Chapter V.
38. Most of the liberal intellectual critics work for programmes of political and liberal reform from within the bureaucratic and political power structure and the press, hoping to influence the course of events through debate rather than active political alliance with workers or peasants. Given highly developed intelligence and security and apparatus of the regimes it is of course difficult to establish such political alliances. Even criticism in the press has been subject to swift reprisals as in 1974 when five newspapers were closed. Student activity has almost been eliminated since Daud Jusuf was appointed Minister for Education. Critics of the regime in business (as in the case of some of the signatories of the "Petition of Fifty") may be denied work permits, import and investment licenses, state bank credits and exit permits. (See the statement of General Yoga Sudama, the Head of the Intelligence Coordination body (*BAKIN*), June 1980, in *Far Eastern Economic Review*, 27/6/80, p. 26.
39. See: Jusuf Panglaykim, "Origanisasi Bisnis Dalam Rangka Pembangunan Ekonomi di Asia Tenggara," in Persoalan Masa Kini, *Perusahaan Perusahaan Multi Nasional*, Jakarta, Yayasan Proklamasi, Centre for Strategic and International Studies, 1974; Jusuf Panglaykim, "Structur Domestik Dalam Interdepensi Dunia," *Analisa Masalah Internasional*, Tahun II, No. 12, 1973.
40. These requirements were made in a series of regulations issued in 1974. See: *Business News*, Jakarta, 23.1.74. Sectors open to foreign investment and the conditions applying to such investment are listed in: Investment Coordinating Board (BKPM), *Priority List for Foreign*

Investment 1981-1982, Jakarta, 1981.

41. Peter McCawley, *Industrialization in Indonesia*, Canberra, Australian National University, Development Studies Centre, Occasional Paper No. 13, 1979, pp. 38-43; Martin Rudner, "The Indonesian Military and Economic Policy," *Modern Asian Studies*, Vol. 10, No. 2, 1976 especially pp. 270-5.
42. Bruce Glassburner, "Political Economy and the Suharto Regime," *BIES*, Vol. XIV, No. 3, November 1978.
43. New (third generation) mineral production-sharing agreements include a 10 per cent tax on the export of unprocessed minerals, a requirement that 51 per cent of shares to be sold to Indonesians within ten years and a windfall profit tax. New oil production-sharing agreements lifted the Indonesian government's share of production to 85 per cent.
44. The most important statement of the position of international capital has been the World Bank Report on Indonesia for 1980. See: Guy Sacerdoti, "Overdraft of Inefficiency," *Far Eastern Economic Review*, 29.5.81, pp. 44-9; also Eduardo Lachica, "Indonesia Investment Policy is too Rigid, U.S. Firms Say," *Asian Wall Street Journal*, 21.4.81, pp. 1 and 4.
45. See the table on implemented foreign investment in *Indonesian Development News*, Vol. 4, No. 12, August 1981.
46. See Heinz Arndt's section on the "Looming Resource Gap" in his "Survey of Recent Developments," *BIES*, Vol. XVII, No. 3, November 1981.
47. Richard Robison, "Towards a Class Analysis of the Indonesian Military Bureaucratic State," *Indonesia*, No. 25, April 1978.
48. Richard Franke described the economic behaviour of politically powerful figures in the early period of the New Order in terms of a cargo cult mentality. See: Richard Franke, "Limited Good and Cargo Cult in Indonesian Economic Development," JCA, Vol. 2, No. 4, 1972.
49. The structure of the Liem group to 1977 is outlined in Richard Robison, *Capitalism and the Bureaucratic State in Indonesia*, Ph.D. Thesis, Sydney University, 1977, (appendix B, pp. XVII-XIX).
50. The unsuccessful struggle of the traditional indigenous bourgeoisie in the 1950s and 1960s is treated in: Lance Castles, "Socialism and Private Business: the Latest Phase," *BIES*, No. 1, 1966; R. Anspach, "Indonesia," in F. Golay *et al.*(eds.), *Underdevelopment and Economic Nationalism in Southeast Asia*, Ithaca, Cornell University Press, 1969.
51. The larger Chinese capitalists were best able to transfer money out of Indonesia because of a degree of integration with overseas Chinese financial networks. Indigenous capitalists often resorted to maintaining funds in the form of commodities (most lucrative were spare parts) but often found attempts to accumulate finance frustrated by inflation. See: Robison R., *Capitalism and the Bureaucratic State in Indonesia, 1965-75*, Ph.D. Thesis, Sydney University, 1977 pp. 98-105.
52. Probably the best general treatment of economic nationalist movements in this period is that R. Anspach, "Indonesia," in F. Golay et al. (eds.), *Underdevelopment and Economic Nationalism in Southeast Asia*, (Ithaca, Cornell University Press, 1969). See also: Asaat, "The Chinese Grip on our Economy," in Herbert Feith and Lance Castles (eds.), 1970, *op. cit.*, pp. 343-5.
53. For an overview of the credit difficulties of the indigenous bourgeoisie and petty bourgeoisie in the early New Order period see: Robison, R., 1977, *op.cit* pp. 133-5. Also the article: "Kredit PMDN-Antara Koneksi dan Investasi," *Tempo*, 9.12.73.
54. Some interesting studies of the disintegration of indigenous bourgeoisie in the petty commodity production and small-scale manufacturing sector are to be found in the Indonesian press. See: *Tempo*, 2.12.72; *Topik*, 1.3.72; *Progress*, No. 7, 1972. For an overview, see: in S. Joedoeno, "Partisipasi Pengusaha Nasional Ekonomi Lemah," in S. Joedoeno *et al* (eds), *Prospek Perekonomian Indonesia 1974*, LPEM, Fakultas Ekonomi, Universitas Indonesia, 1973.
55. See *Indonesian Commercial Newsletter* (ICN), No. 166, 26.1. 1981, pp. 1 and 2.
56. Richard Robison, 1977, *op. cit.* pp. 442-4.
57. Contracts below Rp. 50 million were to be reserved for the "weak economic group" (i.e. indigenous) and from Rp. 50-100 million the indigenous tenderer was to be given a 10 per cent margin. These regulations were an attempt to give indigenous contractors an increased share of the work generated at the regional level through such programmes as *Inpres*. For a summary of the regulations see: Ruth Daroesman, "Survey of Recent Developments," *BIES*, Vol. XVII, No.

2, July 1981, pp. 14-16.

58. Some insights into the role of small capital in the urban transport sector are given by Howard Dick in "Urban Public Transport," (parts I and II), *BIES*, Vol. XVII, Nos 1 and 2, March and July 1981.
59. *Inpres* (Instruksi Presiden - Presidential Instruction) and *Banpres* (Bantuan Presiden - Presidential Assistance) and the programme for development in the village and local levels, mostly in the form of grants for construction of schools, hospitals and public works. They are part of the development budget but it would appear that the process of allocating these grants is closely tied to patronage networks and is subject to frequent allegations (both public and private) of corruption and manipulation.
60. See: *White Book of the 1978 Students Struggle*, (published under the auspices of the Students Council of the Bandung Institute of Technology, January 1978 and translated in *Indonesia*, No. 25, April 1978).
61. This group of former military officers and political figures made a comprehensive statement concerning the increasing trend of political authoritarianism in the now well-known petition of fifty. See: *Pernyataan Keprihatian* (Statement of Concern—better known as Petisi Limapuluh - Petition Fifty), Jakarta, 5 May 1980.
62. The KIK (Kredit Industri Kecil - Small Industry Credit) and KMKP (Kredit Modal Kerperluan Pribumi—credit for Indigenous Capital Needs) are the main credit schemes involved. However, Ruth Daroesman reports that there are serious doubts about their success. Only 200,000 persons have benefited, most of these established businessmen, and repayment rates have been low. See: Ruth Daroesman, "Survey of Recent Developments," *BIES*, Vol. XVII, No. 2, July 1981, pp. 17-20.
63. See: Howard Dick, "Survey of Recent Developments," *BIES*, Vol. XVIII, No. 1, 1982. For a review of the price rises generated by the subsidy cuts, see the article, "Memang Sulit, Semua Harus Menanggun," *Tempo*, 9.1.82.
64. In the 1982-3 budget, oil company tax constituted Rp. 9,122 billion out of the total of Rp. 13,756 billion of domestic revenue. Income tax and company tax, normally the major component of direct taxes, contributed only Rp. 1,079 billion, a little over half of foreign aid revenues.
65. Material on corruption is extensive. Two of the more comprehensive reports are: "Korupsi-Mana ada Yang Bersih," *Tempo*, 31.10.81; Malik: Korupsi Sudah Epidemik," *Sinar Harapan*, 2.11.81.
66. Richard Robison, 1977, *op cit.*, pp. 354-70. See also: the Student White Book, translated in *Indonesia*, No. 25, April 1978.
67. Richard Robison, 1977, *op cit.*, chapter 6 and 7. An interesting article on the Suharto/Liem Sioe Liong Bogasari Flour milling group gives a recent insight into activities of politico-business alliances. See: Joseph P. Manguna and S. Karen Witcher, "Suharto Relatives, Officials Gain Control of Indonesian Flour Trade," *Asian Wall Street Journal*, 23.11.81.
68. International business has consistently expressed its frustration not only at the cost of corruption in Indonesia but at the uncertainty it throws over the whole process of investment. The 1980 IBRD report was quite clear about the need to reduce corruption, and foreign business associations have been highly critical of the various levies and charges imposed by officials outside the legal apparatus. See, for example, the statements of the American Chamber of Commerce and Industry reported in *Asian Wall Street Journal*, 23.10.81.
69. Richard Robison, 1977, *op cit.*, Chapter 5.
70. Corruption in tendering and contracting were specifically dealt with in the *Tempo* articles, "Korupsi-Mana ada Yang Bersih?," (31.10.81) and "Malik: Korupsi, Sudah Epidemik," (2.11.81). It is also significant that the latest regulations involving contracting require that all tenders for contracts over Rp. 200 million be submitted to the state Secretary's Office for final approval and allocation. This gives the President and the Secretary of State potential access to a massive source of patronage not formerly under their direct control.
71. The total to date is about $4,250 million implemented (*Indonesian Development News*, Vol. 4, No. 12, August 1981).

PART II: CULTURE, POLITICS AND ECONOMY

Chapter 3
Culture, Politics, and Economy in the Political History of the New Order

> What these gentlemen all lack is dialectics. They always see only here cause, there effect. That this is a hollow abstraction, that such metaphysical polar opposites exist in the real world only during crises, while the whole vast process goes on in the form of interaction—though of very unequal forces, the economic movement being by far the strongest, most primordial, most decisive—that here everything is relative and nothing absolute—this they never begin to see. As far as they are concerned, Hegel never existed.[1]

The object of this study is twofold. First, to provide a critique of those interpretations of the political history of Indonesia's New Order which rest upon a cultural analysis of power and conflict. Second, to develop an analysis of the political history of the New Order based upon a theoretical construct which locates culture and politics within a total system of interacting historical relationships between culture, politics, and the forms and relations of production.

The Tradition of Cultural Politics

Culture has long been a prominent explanatory device for Western analysts of Indonesian politics, in part because orientalist approaches have strongly influenced Western studies of non-Western societies. More important, however, in recent analyses has been Max Weber's analysis of social structure and political behavior in terms of systems of meaning and consciousness constructed by individuals.

Clifford Geertz has been perhaps the most important exponent of theories of cultural politics as they relate to Indonesia. In the Weberian tradition, he has argued that streams of consciousness or systems of meaning grouped into *aliran* (vertical structures of identity and organization) are the primary factors in generating social

identity and action in postcolonial Indonesia. Two of these aliran are specifically Javanese: the *priyayi* tradition, an ideology of the court and literati oriented to Hindu-Buddhist and Javanese mystical world-views, and the *abangan*, a more popular syncretic ideology of the peasantry heavily influenced by Javanese animism. The third aliran is that of the *santri*, a pious Islamic world-view shared by elements in both Javanese and Outer Island society.[2]

At various times Geertz has imbued these cultural aliran with social and political characteristics. He has associated the priyayi with the Javanese court literati, the officials of the modern state bureaucracy, and the PNI (Partai Nasional Indonesia); the abangan with the peasant masses and the PKI (Partai Komunis Indonesia); and the santri with the indigenous merchants and landowners and the Masjumi and Nahdatul Ulama. It has never been clear whether Geertz implies an interaction between, or a conjuncture of, culture and class, since he has never attempted a systematic theoretical explanation of the relationship between the ideological, social, and political aspects of aliran. Geertz's works are essentially empirical observations of social life in small Javanese towns and there are serious contradictions once the analysis is lifted beyond this level.[3]

Another significant influence on recent analyses of the New Order has been that of Parsonian structural-functionalism, which places "roles," "norms," "values," and "legitimacy" at the center of social and political analysis. This methodology was embraced by the "modernization" and "comparative politics" schools in North America in the 1950s and 1960s and focused attention upon cultural pattern variables as the indicators and underpinnings of tradition and modernity in political systems.[4] A crucial influence of this school has been the development of the concept of a cultural category of secular modernizers—urban intellectuals and officials attached to Western liberal and "rational" ideological systems.[5]

The political struggle between forces representing these cultural world views has become one of the central objects of analysis for Western political scientists. The dominance of cultural rather than class factors has explained the tendency for analysts to see political forces organized in vertical groupings which cut across class lines. The political triumph of forces constituting the Javanese cultural tradition has explained what appeared to be an illogical development in political history: the persistence of patrimonial political forms.[6]

Over the past three decades political scientists have had as a central concern the struggle between the Javanese, the santri, and the secular cultural traditions. Throughout the 1950s and part of the 1960s these forces were seen to be locked in confrontation over the development of economic and political forms. Many Western political scientists had accepted the premise that liberal democracy and bourgeois capitalism would be reproduced in the Third World; thus the failure of the liberal democratic experiment and its replacement in the late 1950s by the populist authoritarianism of Sukarno's Guided Democracy and the statist capitalism of Guided Economy were perplexing developments.

The immediate reaction to these developments was to ask what went wrong. In his *Decline of Constitutional Democracy in Indonesia*, Herbert Feith saw the problem in terms of the political defeat of problem-solvers or pragmatists (i.e., the secular modernizers) by solidarity-makers, who subordinated the goals of economic rationality (bourgeois capitalism) and political democracy to those of securing national integration and political order through the institution of authoritarian rule and the manipulation of political symbols.[7]

In the 1960s modernization theorists tended to abandon liberal democracy and bourgeois capitalism as criteria for political and economic "modernization" in favor of the criteria of political order and economic efficiency.[8] Authoritarian military regimes were now recognized as one of the few structures (apart from mass-based revolutionary movements) able to impose order and stability, to generate economic growth, and produce rational, secular leadership and management, and they thus took a new aura of respectability.[9]

Suharto's New Order was initially welcomed by some Western political scientists and economists because, although no less authoritarian than Guided Democracy, it promised a shift from populist authority based upon traditional political structures and symbols to a secular national authority able to come to grips with the enormous problems confronting Indonesia. Considerable enthusiasm was generated when U.S. trained economists, appointed by General Suharto to administer economic planning, were able quickly to overcome the devastating inflation of the last Sukarno years.[10]

But the New Order posed new problems for Western observers. Although there has been impressive economic growth, it is doubtful how effectively this growth constitutes the basis of a self-sustaining and self-generating Indonesian economy. At the same time, far from providing channels for political participation by the major social groups, the New Order has chosen to repress and exclude them.[11] A small "elite" has been seen as concentrating economic wealth and political power and, as a consequence, generating social tensions and obstructing both economic development and political order. In explaining the New Order, Western analysts have sometimes sought answers in the persistence and political dominance of Javanese perceptions of power, authority, and social relationships and the continued suppression of modernizing and secular elements. Much research has focused on the massive corruption and administrative incompetence of a politico-bureaucratic apparatus constructed upon personalized, hierarchical, and authoritarian political relationships; the refusal of the ruling groups to share either power or wealth; and their incapacity to provide the political, fiscal, and administrative infrastructure for a "modern" society.[12]

I intend now to examine and criticize the political science (cultural politics) analysis of the New Order. This can best be done by focusing upon three works which have attempted to construct general theoretical analyses of the structure of power and the nature of conflict under the New Order: Donald Emmerson's

Indonesia's Elite: Political Culture and Cultural Politics;[13] R.W. Liddle's "Models of Indonesian Politics,"[14] and Karl Jackson's "Bureaucratic Polity: A Theoretical Framework for the Analysis of Power and Communications in Indonesia" and "The Political Implications of Structure and Culture in Indonesia."[15]

Emmerson, Liddle and Jackson

For Emmerson, the central problem of the New Order is ultimately rooted in the cultural division of Indonesian society among santri, abangan, and, implicitly, secular modernizers. His central thesis is that the New Order is unable to reconcile the competing abangan and santri cultural forces. The military rulers of contemporary Indonesia, who represent the abangan/priyayi tradition, have not attempted to integrate the santri but, rather, have tried to contain opposition by depoliticization, by focusing attention on economic development, by excluding cultural issues from public debate, and by merging, co-opting, and manipulating political institutions so that they lose their cultural distinctiveness.[16] By choosing to repress and exclude, rather than develop institutions to incorporate, politico-cultural groups, the New Order has adopted a strategy which will produce political tensions, anomic behavior, and severe legitimacy crises.

In Emmerson's view, the impediments to political order and modernization are cultural in nature because the priyayi/abangan perspective is hostile to the devolution of authority and political reconciliation, as it is tied to a hierarchical, authoritarian system of personal loyalties and relationships. This system also hinders effective administration, since officials tend to be preoccupied with developing loyalties rather than solving problems.

Yet there are difficulties in the devolution of power. Because parliament has been excluded from wielding real power, and therefore denied real responsibility, it remains frustrated, constituting neither a constructive nor a unifying force.

> ...how can one recommend empowering a Parliament that includes a set of cultural minorities and political outgroups many of whose outlooks are relatively untrusting, anomic, intolerant, unempathic, centralist, and conflictual...as compared to the outlooks of the politically dominant, culturally mainstream bureaucratic elite—an institution, in short, whose very representativeness spells potential disruption?[17]

How can these problems be solved? Emmerson argues for changes in the political structures designed to devolve power gradually, and increase responsibility so that the frustration and irrational behavior produced by permanent exclusion would be reduced. He also advocates a concentration of energies upon problem solving rather than cultural/political conflict. We may infer from this that the answer really lies in the emergence of a secular, rational, modernizing elite whose very cultural identity would equip them to integrate, socialize, and manage.

Emmerson is aware of class as a factor and points to the conflicts generated, at least in part, by economic issues (such as the 1974 riots). Nevertheless, he tends to

regard class cleavage as embryonic, constituting a potential rather than actual dimension of political conflict; i.e., it will emerge only if the New Order fails to give outgroups institutional access to decision making. His solution emphasizes changes in the structure of institutions rather than in economic strategy; it does not take into consideration the essential contradictions of economic interest between the generals and the masses.[18]

The conflict between traditional Javanese cultural-political perspectives and those of the secular modern tradition also lies at the heart of Liddle's analysis. He rejects the notion that in the New Order state major decisions are made by technocrats (secular modernizers) on a scientific basis in the interests of the long-term social and economic goals of building a more egalitarian society and a more liberalized political structure. But he rejects this image (conjured up by the Western supporters and by many New Order generals themselves), not because of any contradiction between the economic or political strategies of the New Order, or between the interests of the generals, the foreign and Chinese bourgeoisie, and the Indonesian people, but because of the managerial and administrative incompetence and the inappropriate cultural perspectives of the generals and bureaucrats. He talks of:

> ... corruption or lack of steadfast commitment to social purpose on the part of the top military leadership, ill-chosen policies from the technocrats, any of the thousand weaknesses to which the bureaucracies are subject.[19]

Liddle constructs an alternative model of Indonesian politics which, he claims, recognizes the uniquely Javanese character of the New Order. In essence, he argues that the present regime, with President Suharto at its apex, is based upon personalized networks of patrons, clients, and supporters. The New Order views the world through a traditional Javanese cultural lens which renders it unable to take the action necessary to fulfill the modernizing goals of national autonomy, economic growth, and bureaucratic rationalization.

Like Emmerson, Liddle is well aware of the class dimensions of politics but sees these influences as too weak to break across vertical patron-client cleavages.[20] Although he acknowledges that Mortimer's model of the New Order as a "comprador authoritarian" regime offers valuable insights, he rejects it on grounds that there is little to suggest that social revolution is imminent. This is puzzling, since Marxist analyses of peripheral social formations rest not upon the imminence of revolution but upon the analysis of class relations. In fact, Mortimer stated:

> For Indonesia, a developmental course appropriate to its situation would demand a political and social revolution of which for the foreseeable future there is no prospect.[21]

Yet Liddle does foresee the possibility of challenge to the New Order's patrimonial

state from a new generation of army officers whose vision of Indonesia's future would be secular and populist.

> Social justice may be a principal theme, or a kind of nationalism that requires military strength against a hostile (Communist, Western or both) world, or a nationalism that emphasizes the building of heavy industry under state auspices.[22]

Despite the fact that Liddle recognizes that the emergence of such perspectives is related to "the broader circumstances of the economy (domestic and international), social structure, and culture,"[23] he does not pursue an analysis of the interaction of these factors. This failure springs from the essential weakness of the modernization theorists' and political scientists' outlook: namely, their lack of theoretical tools to extend political analysis beyond the narrowly political, except to point to the influence of the changing cultural perspectives of political leaders.

Jackson's approach to the question is much more heavily and directly influenced by modernization theory, particularly by the works of Riggs and Huntington. He essentially applies Rigg's analysis of the Thai "bureaucratic polity" to the Indonesian situation, arguing that the bureaucratic state is insulated from the influence of outside social forces and primarily serves the interests of those within it. In Indonesia, the bureaucratic polity is so successful in excluding some social forces and coopting the leaders of others within patron-client networks that it needs only occasionally to defer to the demands of Muslims and foreign capital.[24] Like Riggs, Jackson argues that the bureaucratic polity is a form of bureaucratic authority unsuited to generating "modernization," because it is unable to conceive of the national or public good. Politics thus tends to be a series of squabbles over the spoils of office.

According to Jackson, power and conflict in Indonesia are primarily shaped by the patron-client system. This system is not defined by aliran as Emmerson argues; it is simply a structure within which patronage is dispensed and support mobilized. But why the patron-client form? Although Jackson briefly mentions that the poverty of the masses prevents any form of social challenge, this assertion is neither pursued nor explained. Instead, he emphasizes the political and the cultural. He argues that the political determines the form of its own existence, and thus that political leaders decide what form the political structure will take:

> Elite and counterelite choices are critical in determining whether continued socioeconomic change leads to (a) development of a competitive democratic system based on mass political parties and a participant citizenry, (b) movement toward a single-party, ideologically based mobilization regime, or (c) continuation of a bureaucratic polity.[25]

On what basis do "elites" make their specific choices? Here Jackson gives primacy to cultural factors, including the psychological need for dependence, and a passivity which produces an attachment to hierarchical, personalized leader-follower groups (*bapakism*), an obsession with form rather than substance, and the implications of

the Javanese view of the nature of power.[26]

> More specifically, in Indonesia every man is perceived as having his station and its duties. Social justice is interpreted as carrying out the responsibilities of *justly unequal* roles. Because of God-given high status and wealth the patron must lead, educate, and care for the material and spiritual needs of a large group of clients. Great satisfaction and psychological security are derived from the act of giving deference and respect to persons of higher rank in the social hierarchy and from receiving deference from those below. Within the system, social injustice and corruption are felt only if a patron fails to redistribute his bounty among his clients or if the patron in adapting to market pressures abandons the diffuse responsibilities of a bapak towards his anak buah.[27]

The Critique of Cultural Politics

The "cultural politics" approach to the analysis of power and conflict in New Order Indonesia rests upon two major propositions:

a) that the nature of the New Order regime can be explained essentially in terms of the persistence of Javanese cultural perspectives which shape the political behavior of officeholders;

b) that the identity and structure of political groups and the nature of political conflict is defined by the patrimonial nature of political relationships, i.e., by vertical, personalized patron-client structures.

These propositions are inadequate in two respects: they fail to comprehend the dynamics of politics; and, more important in terms of New Order Indonesia, they fail to provide a means for explaining why power and conflict exist there in their present form.

Obsession with the cultural and behavioral works to focus the analysis upon the style of a regime rather than its substance, and it ignores the very real socioeconomic dimension of the New Order. The New Order regime quite clearly constitutes one fraction of a complex alliance embracing foreign and Chinese bourgeoisie; the urban technocrat/administrative/managerial class (the so-called middle class); and the politico-bureaucrats.[28] This regime serves to integrate the alliance in two ways. First, it provides the general political, legal, and economic infrastructure for the existence of the particular form of capitalism in which the interests of the alliance are embedded. It achieves this goal by general development strategy, capital investment laws, credit, wage, labor, fiscal, and monetary policies, as well as state investment in infrastructure.[29] The second means of integration is through extensive private political and economic alliances between specific politico-bureaucratic factions and foreign or Chinese business groups. Again, the politico-bureaucrats provide the political infrastructure for these alliances in the form of protection, contracts, licenses, concessions, and public policy.[30]

This dimension of the New Order regime has been largely neglected by political scientists, because it is not an inherent component of the theoretical constructs within which they work. Yet it helps elucidate a fundamental aspect of power not explained by patron-client models. It is true that the generals have a patrimonial,

tribute-gathering style which constitutes the basis for a certain tension between them and the technocrats and middle classes. However, although they may be in conflict over the question of the proper use of the state power, they remain in general agreement over the desirable form of the social and economic order and over the broad thrust of policy necessary to maintain and reproduce this order. To this extent, as David Levine has argued, the abangan/priyayi bureaucrats are in the same camp (albeit in uneasy alliance) with the secular modernizing technocrats.[31]

From this starting point we can detect a whole range of issues where the state has clearly been involved politically in struggles of a social and economic nature. An important issue in Indonesia politics since the 1950s has been the struggle involving the indigenous petty bourgeoisie of merchants, commodity producers, and small capitalist producers, the Chinese bourgeoisie, the foreign bourgeoisie, and the state.[32] The central question here has been whether the state would protect and subsidize the indigenous petty bourgeoisie and bourgeosie or pour its public and private energies into integration with foreign or Chinese capital. The struggle has been manifested in the rise and fall of Benteng program, the introduction of PP10 (Penetapan Presiden 10—Presidential Decision #10)/1959 restricting Chinese commercial entry into rural areas, and, more recently, in conflicts over credit policy and the scandals of military/Chinese business alliances.[33]

Similarly, the question of land has embroiled the state in rural class conflict since the 1950s. Although Mortimer, Wertheim, and others[34] have clearly indicated the importance of cultural-political structures in rural conflict, less attention has been paid to the deepening struggle between rural classes over questions of land and labor. The state apparatus and the military and civil officials who occupied offices of authority were drawn into the conflict over landownership and land reform both in the period of *aksi sefihak* [unilateral action] from 1963 to 1965 and during the massacre of PKI supporters in 1965-66.[35] In effect (I am not arguing that this was consciously intended), the state allied with the rural landowners to bring about a counterrevolution—ensuring that the process of concentration of landholdings and capitalization of farming would not be obstructed by reformist movements.

Since 1965 the concentration of landholdings and the move to wage labor have deepened class divisions, weakening old-client patron structures.[36] These development have been assisted by the government's Bimas (Bimbingan Masal Swa Sembada Bahanan Makanan—Mass Guidance for Self-Sufficiency in Food) program and by the system of Inpres (Instruksi Presiden—Presidential Instruction) credits. Moreover, it would appear that state officials themselves, from village heads and army sergeants to bupati and high officials, are becoming prominent figures in the developing *kulak* class.

Finally, the state has constantly been involved in the struggle between foreign capital and nationalist sections of the petty bourgeoisie and middle classes, which formed an important element in the rise and fall of Guided Democracy and Guided Economy. In the last decade the debate over the role of foreign capital has been

vigorous and often bitter,[37] with the New Order government being forced to move at times to placate critics by imposing controls upon foreign capital.[38] Nevertheless, the New Order must be seen as providing the conditions in Indonesia for the development of a capitalist structure in which ownership and control of the productive forces is largely vested in foreign or Chinese hands. To this extent it is thrown into political opposition to national economic forces, both bourgeois and socialist.

The failure of political scientists to analyze systematically these facets of power and conflict under the New Order flows partly from a very narrow conception of what constitutes politics. Their focus has tended to be upon the pursuit and the maintenance of power, and the role of such organizations as Kopkamtib (Komando Pemulihan Keamanan dan Ketertiban—Command for the Restoration of Security and Order), Bakin (Badan Intelijen Negara—State Intelligence Body), Golkar (Golongan Karya—Functional Groups), Hankam (Departemen Pertahanan—Keamanan—Department of Defense and Security) and the Presidency in this process. Consequently, the state (polity) is seen as isolated from social forces merely because no social force exercises formal control of the state by means of a political party. Power appears to be generated from within rather than without the state apparatus. The state has wide autonomy of action, limited only by the capacity of political leaders and elites to build effective political organizations to exclude and repress, or coopt and integrate.

The state, however, is not exclusively concerned with its own political survival. It is also concerned with the reproduction of a specific social and economic order and, therefore, has a social and economic dimension. We must then look not only at struggles for power (which are all too often factional struggles of no fundamental consequence for any but the individuals involved), but at the question of policy. It is true that the foreign and Chinese business or rural landlords have no formal control over the institutions of power. Nevertheless in the New Order state their general interests as classes coincide with the interests of the politico-bureaucrats. They are further strengthened by the fact that the New Order is limited in its capacity to interfere with the logic underlying the process of social and economic transformation at work in Indonesia.[39]

I have so far suggested that there is a socioeconomic dimension to power and conflict in New Order Indonesia which has been excluded from systematic analysis by political scientists. But serious questions also arise with regard to the value of Javanese political culture as an explanatory device. Some political scientists have been strongly influenced by perceived parallels between the structures of precolonial Javanese political authority and those of Sukarno's Guided Democracy and Suharto's New Order. The recurrence of these patrimonial forms has been attributed by some scholars to the persistence of traditional Javanese perspectives on power, which focus on individual possession of power as a concrete entity. Political activity then centers on individuals who hold power, and political structures cluster in

vertical, personalized networks which compete for the patronage of the power-holders.[40]

Anderson provides an attractive explanation of the Indonesian style of corruption in terms of Javanese perceptions of the relationship between wealth and power.

> Millionaires (entrepreneurial or landed) usually cannot buy themselves administrative positions of power and prestige.... Corruption on a large scale usually takes the form of the allotting of the "surplus" of certain key sectors of the economy to favored officials or cliques of officials, whether civilian or military. Rice-collection, tin mining, oil production and distribution, and tax collection are only some examples of the areas in which officially supervised venality occurs.[41]

I am not disputing the existence of Javanese political perspectives and their influence on the style of political behavior. However, there are two grounds on which an analysis focusing exclusively on this aspect is inadequate. First, there are other political cultures which may have an equally important influence on the political behavior of the New Order. Second, there is a need to explain why the Javanese political culture has survived and what are the factors which govern the historical process of transformation or pertification of ideologies and culture in general.

A second ideological view dominant amongst the politico-bureaucrats and officials of the New Order is that the role of the political leader and administrator is as the bringer of "development." In this view, the claim to power is legitimized and the exclusion of social forces from participation in the political process justified, on the grounds that the state possesses the scientific means for determining and implementing the common good. The technocrats are ideologically important to the New Order because they constitute this scientific legitimizing factor. As Ward[42] has pointed out, such a perspective derives from North American social science, in particular the "end of ideology" thesis. This is not simply the ideology of the technocrats (the secular modernizers) as opposed to that of the generals (priyayi/abangan patrimonialism), for there is a growing integration between these groups, and, in fact, what is probably the most comprehensive exposition of this approach has been provided by General Ali Murtopo, a central figure in the military group surrounding Suharto.[43]

Finally, we must remember that states similar to that of the New Order exist throughout the Third World, states in which public power is privately appropriated, where the state holds monopoly control over key areas of economic activity, where military and civil bureaucracies monopolize power and wealth, and where popular forces are excluded. As these states are not built upon a Javanese cultural foundation, we must either conclude that Javanese culture is fundamentally similar to those of other precapitalist (traditional) ideological systems or that ideology is only one of several factors conditioning the form of the political system. It is possible that the common existence of military-bureaucratic regimes in the Third World may be fundamentally linked with the common forms of articulation between precapitalist

and capitalist modes of production and the particular form in which capitalism has penetrated the Third World.

These considerations lead to the questions of political change. Emmerson, Liddle, and Jackson all clearly indicate their belief that the form of the political is determined by the choices of elites and that their decisions are based upon their cultural perceptions. As they make no systematic and theoretical investigation of the specific relationships between culture (ideology), politics, and the forces and relations of production, we must conclude either that they do not consider the economic level to be important or that they do not possess the theoretical framework for making such an analysis.

We may conclude from the absence of any systematic statement on relationships between the cultural and the material that any ideological system and hence any political system may exist within any socioeconomic structure. It is obviously absurd to suggest that there is no logical reason why tribal or feudal political or ideological forms cannot remain dominant within advanced industrial capitalist societies, and I do not imagine Emmerson, Liddle, or Jackson would make such a claim. There are quite clearly certain requirements of compatibility between culture, politics, and the economy, and it is these relationships which must be identified and spelled out if we are to explain the logic and dynamic of political change.

In summary, these approaches provide no theoretical framework to explain relationships between culture, politics, and the economy, and no historical perspective for understanding the complex and specific development of these relationships.

Relating Politics, Culture, Class, and Economy

The nature of the relationship between the political, the cultural, and the forms and relations of production has been at the center of debate among Marxist theorists over the past two decades. The starting point for this debate has been Marx's Preface to "Contribution to the Critique of Political Economy," where he clearly refuted the idealist Hegelian approach:

> In the social production which men carry on they enter into definite relations that are indispensable and independent of their will; these relations of production correspond to a definite stage of development of their material powers of production. The sum total of these relations of production constitutes the economic structure of society—the real foundation on which rise legal and political superstructures and to which correspond definite forms of social consciousness. The mode of production in material life determines the general character of the social, political, and spiritual processes of life. It is not the consciousness of men that determines their existence, but, on the contrary, their social existence determines their consciousness.[44]

Despite the fact that Marx never argued in terms of a determining factor, much social and political analysis set within a Marxist framework has tended to argue that the specific nature of the forces and relations of production determines the specific form of the political and cultural superstructure. Further, that the superstructure has no

autonomous existence and is the instrument of the dominant class. The political order functions to secure the interests of the dominant class and to secure the social order in which it is embedded. The ideological order reflects the worldview of the ruling class, justifies their dominance, and imposes acceptance of the status quo upon the exploited classes.

Such an approach denies politics and ideology any meaningful historical role. In reaction to such economic determinism the French structuralist[45] have posited an explanation of the relationships which gives a relative autonomy to each level but reserves the decisive role for the economic in the "last instance." Politics and ideology are articulated within specific structures—mode of production and social formation—which become the framework for analysis. The concept of mode of production is generally used to denote the relationship of a particular set of forces and relations of production, while a social formation is:

> ...an articulated structure of economic, political and ideological levels dominated by a specific mode of production. The economic level is held to play the role of "determination in the last instance" in that it determines the character of and the relations between each of the levels. Nevertheless the political and ideological levels are "relatively autonomous": they exercise a reciprocal effect on the economy and in certain cases they may occupy the place of dominance in the social formation.[46]

In effect, the structuralists are proposing that politics and ideology have an autonomy within the bounds of a logic imposed upon the structure of the social formation as a whole by the dominant mode of production. They function to provide the general conditions of existence for the dominant mode of production and the accumulation process. Joel Kahn has taken this general approach in his analysis of ideology and social structure in Indonesia.[47]

> ...it is through "empirical reality" that economic and political structures operate on thought systems. If thought systems are directly related to observable interactions, and if these interactions are generated by social structure, then it is in the generation of the raw material of ideology—social appearances—that social structures affects the perception of social reality. The relationship between social structure and ideology, when perceived in this way, becomes a negative one, in the sense that the systemic requirements are that ideology does not contradict appearance. At the same time there need be no reflective process at all, since interactions and other appearances are not themselves direct reflections of underlying social structure.[48]

Arguing that the structuralists have not avoided a reductionist or determinist position, Hindess, Hirst, and their colleagues propose an analysis which dispenses with the concepts of mode of production by denying that the forces of production impose any specific structure upon social relations of production or upon the political or ideological levels.

> The social formation is not a totality governed by an organizing principle, determination in the last instance, structural causality or whatever. It should be conceived as consisting of a definite set of relations of production together with the economic, political and cultural forms in which their conditions of existence are secured. But there is no necessity for those conditions to be

> secured and no necessary structure of the social formation in which those relations and forms must be combined.[49]

Therefore the levels of culture, politics, and economics are autonomous, each with its own internal logic. Neither the forces nor relations of production are able to create the specific form of the other levels. Their conjuncture into a system in which each autonomous level provides the conditions for the existence of other, and produces integrated social formations, appears to rely upon coincidence, because Hindess provides no theoretical mechanism by which we can understand interaction between the levels.

Obviously this is not the appropriate place to provide a critique of this debate. Nevertheless the debate itself does raise the major theoretical issues and questions that have to be confronted in any attempt to develop an analysis of the relationship between ideology, politics, and the forces and relations of production in Indonesia.

In general terms I propose that state in and society contemporary Indonesia can best be analyzed by means of a construct that explains change as a process of continuous and mutually conditioning interaction of culture, politics, and economics, where the dominance of any one factor is determined by the specific historical context in which it is situated. While I agree with the structuralists that the logic of the total structure imposes a series of negative restraints upon the form of each of the levels, I would argue that the interrelationship is also a positive one; that there is a tendency for a specific set of levels to emerge which mutually condition the form of, and provide the conditions for, each other's existence. To this extent I would propose that the concept of mode of production, embodying a set of mutually conditioning forces and relations of productions and political and cultural levels, is a valid and useful one. Modes of production may break apart and new modes form as a result of fundamental changes in any levels—i.e., the emergence of a new technology, or of a new class, or of a new political movement. However, to the extent that it is possible to isolate primacy, this can only be done within the context of each concrete historical situation.

Before I move on to analyze the Indonesian case I would like to make it clear that I am not arguing that any one level may determine the specific form of the others. For example, while it is obvious that the feudal state could not coexist with industrial capitalism there is no logical imperative for the political level in an industrial capitalist social formation to take the form of liberal democracy. This particular form has emerged in Western Europe and North America because of a specific and concrete set of historical experiences. We cannot expect liberal democracy necessarily to develop in Southeast Asia simply as a consequence of the intrusion of a capitalist mode of production, because the specific historical circumstances are quite different. The precolonial social formations cannot be equated with European feudalism, the economic and political forms imposed by colonialism were never experienced in Europe, the development of classes in Southeast Asia has not been characterized by the emergence of a dominant national bourgeoisie or a

powerful industrial proletariat, and indeed, the specific form and sequence of the development of the capitalist economy have been quite different. Neither has Southeast Asia experienced any drawn-out political conflict between the gentry and the new urban bourgeoisie. We must therefore expect capitalist Southeast Asia to be characterized by quite different political forms, albeit forms which are compatible with the development of specific capitalist forces and relations of production.

Political Conflict: Patron-Client and Class

The tendency for political identity and organization in Indonesia, particularly on Java, to take the form of vertical patron-client structures and for conflict to occur between competing networks has been well documented. Both Mortimer and Wertheim have shown how the PKI was forced, to a large extent, to work through these vertical structures, because it found itself limited in its capacity to mobilize political forces on the basis of class. As we have seen, this tendency for politics to take form of vertical, client-patron networks and allegiances has been explained by some political scientists as the consequence of cultural influences upon political behavior. To a lesser extent, these scholars argue that class politics are not prevalent because class consciousness is low and class lines are not sharply drawn. Indeed, Mortimer explains the relative absence of class politics in rural Java as the result of a rural social order where the boundaries between landlord and peasant are unclear.[50]

These discussions of the nature of Indonesian politics have focused upon rural Java, probably because it is here that a peasant-based revolutionary movement is most likely to emerge and this region provided the PKI's and Sukarno's mass support. Cultural explanations are clearly inadequate for an understanding of the tension between class and patronage politics. The specific relationship between political forms (class or patronage) and the forces and relations of production must also be investigated. I intend to argue the following:

1. That client-patron political forms do not indicate an absence of classes, but constitute one form in which classes work out relationships and seek political and economic accommodation.

2. That patron-client politics in rural societies become class politics when either the landowners secure the economic means to escape patronage relationships or when the peasants secure the political means to do so.

3. Patron-client political structures are most compatible with social formations dominated by agricultural production, where tenancy constitutes the basic form of social relations of production and landownership patterns have produced a landowning class; they tend to disintegrate with the extension of capitalist relations of production.

There are several studies which have attempted to relate the transformation from patronage politics to class politics to broader socioeconomic changes. In his study of social relationships in central Luzon from about 1890 to 1940, Kerkvliet[51]

shows how patron-client relationships collapsed as the balance of power tilted in favor of the landlords. In the early years, when land was plentiful and labor in short supply, the landlords established a relationship with tenants which was based upon a fair measure of reciprocity and required them to provide a degree of welfare assistance to the peasants. As population increased and land became scarcer and more valuable, the landlords found that they were able to demand a greater share of the surplus produced by tenants and to dispense with the protection and assistance they had formerly granted. Unable to secure their rights through the old patron-client networks, the peasants turned increasingly to peasant unions to confront the landlords on a class basis. In turn, the landlords increasingly moved to replace tenants with wage labor and to invest in machinery, introducing capitalist relations of production into the countryside. Patron-client relationships had flourished when there was a certain balance between landlord and peasant but these forms were rejected by landlords when it was found that their interests and position could be secured more profitably by class political action.

Alavi[52] treats a similar situation in the Punjab, where noncultivating landlords began to introduce tractors and replace tenants with machinery and wage labor. The norms and values which had previously underlain the reciprocal, patron-client relationships between peasant and landlord were cast aside now that the landlords had access to the technical means to secure a greater surplus. The decision of the landowners was also based upon the knowledge that they possessed the social and economic power to avoid or to change the existing tenancy laws and to evade legal or political repercussions. Landlord obligations ended when labor shortages ended and the possibilities for capitalist farming emerged. In seeking to survive, tenants were faced with the alternatives of continuing to work through the disintegrating patron-client networks or of severing alliances with patrons and building class alliances with other tenants to challenge the landlords on the basis of class interest.

In his analysis of political conflict in rural Java, Wertheim[53] also emphasizes the relationship between changing socioeconomic structures and the growing tension between patronage and class political forms. While he agrees that rural classes have not been sharply defined and that political organization has been forced into client-patron networks, he also argues that the spread of capitalism into the countryside in the 1950s and 1960s established a clearer definition of class identity and began to break down the protection previously afforded the poor and destitute by old village communal and patronage institutions. The passing of the 1960 Land Reform laws led peasants to expect land reform, forcing the PKI peasants' union (BTI) to take the lead in the class politics already developing, and forcing the landlords to act in political defense of their class position. The massacres of 1965-66, he argues, can only be fully understood if the class tensions in the Javanese countryside are taken into account. Further, the victory of the military under Suharto constitutes for Wertheim a counterrevolution in the countryside.

> Land reforms appear to have been put, by the Suharto regime, into the icebox. The rich landowners have regained their lands, and the military leaders are practising a sharp repression against those who tend to resurrect agrarian unrest. Non-commissioned officers appear to have been appointed on a large scale as village heads. Whereas the incipient class struggle of the poor peasantry failed, for the time being, it is the large landowners, supported by the rule of the military authorities, who are, thus, openly waging their own brand of class struggle.[54]

Since 1965, disintegrative pressures on patron-client political and social relationships have intensified with the spread of capitalist farming and wage labor. Collier and others have written of the emergence of new relations of production in rural Java, where landowners are dispensing with traditional use of communal village labor, and the obligation to provide such labor with a share of the crop, in favor of contract wage labor. There is also a growth in the economic importance of rice traders who purchase crops in the ground and bring in contract labor for harvesting.[55] Use of wage labor, the increasing availability of rural credit, high-yielding seed varieties, pesticides, and fertilizers are providing landowners with opportunities to become capitalist farmers rather than rent-collecting landlords. Rural society in Java appears quite clearly to be moving in the direction of concentration of landownership and the attendant polarization of landed and landless. Although detailed analysis of the process of capitalist transformation of the Javanese countryside is in its early stages, the process itself is quite clearly taking place. My point is that such a process is of crucial significance for the form of political relationships and the nature of power and conflict in Indonesia

The emergence of a kulak class can be expected to bring fundamental changes in political relationships within villages and between village and state. Relationships between farmer and wage laborer will become primarily economic and contractual, increasingly divested of political and social ties. Client-patron networks will become more inadequate for securing political and economic accommodation between rural classes and structuring relationships between rural classes and the state. A strong agrarian bourgeoisie with an independent base of social and economic power in the ownership of capital will find their interests poorly served by existing networks of patronage, because their interests as a class can only be secured by public policy and public investment rather than personal favors from individual local officials. For example, their survival will require the provision of economic infrastructure (communications, transport systems, electricity, and public works), political infrastructures (regularization of property laws and control of the landless), and policy on marketing, pricing, credit, and subsidy.

Quite clearly the emergence of a class of rural capitalist accumulators will have important consequences for the state. First, it will mean increasing pressure, from a domestic class whose power base is outside the state apparatus, to follow specific economic and social policies. Second, it will mean increasing conflict over the marketing and distribution system which at present is controlled by the state procurement agency Bulog and the Chinese merchant bourgeoisie and petty bourgeoisie. The alliance of patrimonial bureaucrat and Chinese middleman is built

largely upon various state monopolies and controls on distribution, marketing, and pricing. We may logically expect an agrarian bourgeoisie not merely to compete with the Chinese for access to monopoly positions within the existing networks of patronage but to challenge the very basis of the patrimonial state: its political control of trade.

The whole question of patron-client and class political structures is related to the question of power under the New Order. As we have seen earlier, the New Order has been characterized as a regime which generates power from within the apparatus of the state, is isolated from social forces, is repressive and exclusive, and is patrimonial in style. However, rather than looking almost exclusively to cultural and behavioral explanations I propose that a more accurate explanation of the form of such a regime can derived from a specific historical analysis which incorporates analysis of relationships between the political and the forces and relations of production.

Social Relations of Production, Economic Structure, and Political Forms

One characteristic of political power in postcolonial Indonesia has been that offices of authority within the political parties and the civil and military bureaucracies have generally been monopolized by relatively small groups. Consequently, much political analysis has focused upon the palace politics of Jakarta and the increasingly authoritarian and centralized style of rule. Another feature of power in Indonesia has been its patrimonial style. Bureaucratic office is commonly appropriated by a center of political power, and the authority vested in that office used to secure the political survival and personal wealth of a political faction or individual. As we have seen, this has been compared to the style of bureaucratic authority which existed in precolonial Javanese agrarian kingdoms where the ruling class were holders of appanage benefices, rather than being hereditary landowning aristocrats. This situation is, however, conditioned by a very specific historical development of forms and relations of production, and we cannot fully understand the structure of power, or the dynamics of the factors which shape it, without taking into account these economic and social influences.

From its precolonial and colonial experience Indonesia inherited a class structure which was conducive to the concentration of power within a state apparatus dominated by civil and military officials, and wherein other social forces had limited capacity to secure control of the state apparatus. The following summary indicates the major features of the class structure inherited from the colonial period.

1. There is considerable conjecture concerning the extent of private ownership of land in precolonial Java, the degree to which precolonial Javanese agricultural society was grounded upon a feudal rather than Asiatic mode of production,[56] and the impact of Dutch colonialism upon landownership patterns.[57] While it is clear that the commercialization of agriculture in the colonial period did increase private

landownership and create a class of small-holder producers of sugar, coffee, rubber, and other crops (especially in Sumatra, Sulawesi, and Kalimantan), the landowning classes in Indonesia never occupied the position of political power and influence they did in early postcolonial states in Latin America, the Philippines, Pakistan, and South Vietnam. Instead of large indigenous-owned farms, haciendas, or estates, Dutch-owned estates or, to a lesser extent, indigenous or Chinese-owned smallholdings were the predominant centers for the commercial production of crops in the Dutch Indies. Consequently, when independence was secured, the landowning class did not constitute a major social base for political power.

2. The economy of colonial Indonesia took three forms: a subsistence agricultural sector, a petty commodity production sector, and a capitalist sector which took the form of enclave commodity production and export of crops such as rubber, sugar, and coffee, and increasingly, of oil and minerals. This form of capitalism was dominated by Dutch trading-houses and merchant banks, which controlled production on plantations and in the mines, as well as the international trade in commodities. It gave rise, in turn, to small-holder production of commercial crops and to domestic trade in commercial crops. The intermediary sector of domestic trade fell largely into the hands of the local Chinese.[58] With the coming of independence neither Dutch bourgeoisie nor the Chinese bourgeoisie and petty bourgeoisie were able to constitute themselves as a ruling class in its full sense because both were excluded from formal participation in public political activity. They remained economically dominant, but they could not actually rule.

3. Participation of indigenous traders and manufacturers in the colonial capitalist economy was limited to a minor role in domestic trade (predominantly in Sumatra and the outer islands) and to petty commodity production of textiles, batik, foodstuffs, and kretek cigarettes on Java. In the early decades of the twentieth century the indigenous petty bourgeoisie [*pengusaha pribumi*] became engaged in a long and unsuccessful struggle with the Chinese merchants, who gradually extended their economic control into the production of textiles and batik.[59] Although the pengusaha pribumi have remained a force in postcolonial politics, their social and economic base has been too weak to enable them either to capture the state apparatus or to exert a decisive influence on the formation of state policy.

4. This socioeconomic order and economic structure was politically secured by the Dutch colonial administration, which maintained trading monopolies for the Dutch bourgeoisie, and which provided the legal basis for private ownership of estate lands, the economic infrastructure, and the political and military force to contain challenges. Within this overall colonial bureaucracy there was an extensive indigenous bureaucratic apparatus, which had been severed from its traditional tribute and incorporated as salaried officials into the colonial project of securing the conditions of existence for Dutch enclave commodity export production.

5. During the final two or three decades of Dutch rule an indigenous intelligentsia emerged both within the bureaucracy and among independent professionals

such as lawyers, journalists, writers, and teachers. This intelligentsia eventually secured a position of political dominance through its leadership of nationalist political organizations.

6. Because colonial capitalism took the form of enclave commodity production rather than industrial capitalism, the development of an industrial proletariat was limited. The bulk of the urban population were, in fact, not industrial wage laborers but an indeterminate assortment of household servants, day laborers, petty traders, and state employees, such as railway workers. At the same time, the failure of capitalist relations of production to penetrate the countryside to any significant degree meant that rural society had not been transformed into a society of landowners, capitalist farmers, and wage laborers, as we have seen, but remained a confused and overlapping patchwork of landowners, tenants, and small, independent peasant cultivators. Such a social base presented obvious problems for revolutionary political movements.

The first governments of the Indonesian Republic found themselves operating in the context of an enclave export production economy dominated by a Dutch bourgeoisie and a Chinese bourgeoisie and petty bourgeoisie. While there was no inevitability about the form assumed by the postcolonial state, the interaction between political forms and the forms and relations of production is clear. In the years following independence there was considerable debate about the most desirable form which Indonesia's political and economic structures should take, but the direction for the future had already been laid down in the first decade of independence—up to the formal declaration of guided economy by Sukarno. Because of the weakness of domestic classes and the limits upon direct political activity by the dominant Dutch and Chinese bourgeoisie, the state had a relative autonomy for action. The new leaders decided to continue to secure the general conditions of existence for the enclave commodity export economy and the dominance of the Dutch and Chinese bourgeoisie. There were two reasons for this. On the one hand, political leaders and economic planners belonging to the PSI (Partai Sosialis Indonesia), Masjumi, and the right wing of the PNI (Dr. Sumitro, Sjafruddin, and Wilopo) saw a program of very gradual disengagement from the neocolonial economy as necessary because of the inadequate development of a domestic bourgeoisie, whether state or private.[60] In effect, they argued that a domestic capacity for accumulation had to be developed before a meaningful national economy could be constructed. The Indonesian social formation had been so deeply integrated into the neocolonial economy and the class structures so specifically related to neocolonialism the extrication was an extremely difficult process, as Sukarno was later to find out. To a significant degree the new leaders were prisoners of an existing logic. Given time, of course, there is no reason why the state should be incapable of generating a national capitalist economy, although the experience of Third World capitalist economies (since Japan's emergence) is that integration with global capitalist structures intensifies.[61]

There were also more concrete reasons for maintenance of the status quo. Those who secured dominance over the state apparatus quickly discovered that they shared interests with the existing economic order. Because the economy was so heavily based upon import and export and upon exploitation of natural resources, the state occupied a strategic economic position by virtue of its control of the allocation of licenses and concessions for imports, for mining, oil drilling, and forestry exploitation. Political parties quickly secured control of bureaucratic offices in economically strategic positions, particularly in the banking system and the departments of trade, customs, and industry. These became the virtual fiefdoms of political parties and factions, as the defining lines between political power and bureaucratic authority became increasingly blurred. Licenses and concessions were commonly sold or allocated in order to secure either revenue or political advantage for particular political factions and individuals, as well as their families and clients. Political parties and their clients also began to form more structured economic and business alliances with foreign and Chinese bourgeoisie. In the 1950s the first business groups representing this alliance of politico-bureaucratic power and bourgeois capital emerged. They operated primarily in the area of import and distribution monopolies, particularly automobiles, and were supplemented by privileged access to state bank credit through party-controlled banks.[62]

The struggle between the state and the pengusaha pribumi must be seen in a class and economic context rather than that of a struggle between abangan and santri. Directing state power and finance towards protection and subsidy of the pengusaha pribumi contradicted the philosophy of the gradualist technocrats, because, by normal business criteria, the pengusaha pribumu were generally less able effectively to realize capital. Chinese business, with its highly developed networks of distribution was more likely to constitute the basis for a strong local bourgeoisie. Protection and subsidy of the pengusaha pribumi also contradicted the vested interests of the politico-bureaucrats because the licenses and concessions which were potential bases for capital accumulation by the pengusaha pribumi were also sources of revenue for politico-bureaucrats. This contradiction was well illustrated in the operation of the Benteng scheme from 1950 to 1955. Import licenses were supposed to be reserved for pengusaha pribumi importers but were effectively appropriated by politico-bureaucrats and their clients either for sale to, or to be used as the basis of business alliances with, foreign and Chinese business groups.[63]

Conflict between the tribute-gathering comprador state and the pengusaha pribumi has continued to be a central feature of Indonesian political history. Schmitt[64] has pointed out the influence of this contradiction upon the struggle between Jakarta and the Outer Islands in the mid-and late-1950s. He argues that the Jakarta politico-bureaucrats became committed to inflationary policies in the mid-1950s, as a means both of increasing revenue and of making more lucrative the commodity import trade to which they had become firmly attached. Inflation and

an artificially high foreign exchange rate damaged the economic position of indigenous producer-exporters located mainly in Sumatra and Sulawesi. Conflict between the pengusaha pribumi and the Chinese has continued at a level of considerable intensity, resulting in occasional but short-lived victories for the pengusaha pribumi, which include the introduction of PP 10 in 1959[65] and government moves to exclude Chinese business from eligibility for state bank credit and joint venture partnership with foreign companies following the 1974 disturbances.[66] The Chinese, however, have survived and flourished, for two reasons. First, they are indispensable to the working of the Indonesian economy in its present export-enclave commodity-production form through domination of domestic distribution and credit networks. As a strong and effective business entity, they are seen by the technocrats as a major engine of economic growth. More important, the interests of Chinese business groups are commonly tied to the financial interests of politico-bureaucrat factions, such shared interests being manifested in the large number of business groups which are partnerships between Indonesian political power and Chinese capital, managerial, and organizational resources.[67] Consequently, neither the generals nor the technocrats are enthusiastic about either massive state protection and subsidy of the pengusaha pribumi or effective state action against the Chinese.

If the Sukarno era is to be viewed as the manifestation of a resurgence of traditional political culture this must be placed in the perspective of wider social and economic struggle. The abandonment of parliamentary and liberal democratic forms in favor of centralized authority and state cooption of the apparatus of public participation was no more a resurgence of traditional political culture than it was the quite natural collapse of a political system which had never been more than a shell. The political parties never represented the interests of powerful social forces (with the partial exception of the PKI), and there was no significant source of social and political power other than that generated within the state apparatus in alliance with foreign and Chinese bourgeoisie. Guided Democracy simply did away with the redundant paraphernalia of liberal parliamentary democracy, either encompassing social groups within state-sponsored patronage networks or excluding, ignoring, or repressing them.

Guided Democracy constituted a process of struggle between three conflicting groups: economic nationalists, modern-style appanage-holders, and the economic gradualists or pragmatists. Economic nationalists, including the PNI's left wing and the PKI, attempted, with the general sympathy of Sukarno, to create a national economy based upon state capitalist enterprise. Dutch trading-houses and plantations were nationalized and constituted as state companies. The state developed more effective means of controlling foreign exploitation of Indonesia's economic resources through such arrangements as work-contract and production-sharing agreements. Pertamina was the most notable success here. Finally, the state attempted to control imports of commodities which could be produced domesti-

cally, and to finance an industrial base in Indonesia. P.T. Krakatau steel was the most ambitious project in this category.[68]

The difficulties of accumulation in one nation are great enough, even with a highly disciplined and regularized state apparatus and party organization, as the experiences of Russia and China have demonstrated. But the Indonesian economic nationalists were forced to work with a state apparatus which was, as I have already argued, both tribute-gathering and comprador in nature. The nationalized state-trading corporations and agricultural estates were seized by the military and, to a lesser extent, by civilian politico-bureaucratic factions. These elements saw economic activity as a process whereby state power was used to extract a share of the surplus, rather than as a process of capital accumulation. As might be expected, the bulk of the state trading corporations and estates were simply plundered by the military and soon disintegrated for lack of investment, proper management, and maintenance.

In broader terms, the attempt to create a national industrial economy failed because neither the state nor the domestic bourgeoisie and petty bourgeoisie had the capacity to provide the base for national accumulation and industrialization. In effect, Guided Economy proved to be a seizure and pillaging of the economic interests of the Dutch, without any fundamental alteration to the commodity-import and enclave commodity-export structure of the colonial economy. The result was a disintegration of the existing economic structures: the collapse of infrastructure; the compounding of foreign debt; the dwindling of commodity imports (notably spare parts); and the acceleration of inflation.

The New Order may be seen as a regime counterrevolutionary vis-a-vis both agrarian reform and economic nationalism. As I have indicated earlier, it halted the process of rural land reform and destroyed the political organization which represented the interests of socially revolutionary groups in the countryside. On the other hand, it provided the political base for capitalist revolution in the rural areas, establishing political conditions for concentration of landholdings and the spread of capitalist relations of production.

The New Order also represented victory over the political alliance of economic nationalists who had seized power in the late 1950s. Immediately the military secured political control in late 1965 they began moves to renegotiate the foreign debt and to attract foreign capital investment. In effect, this was a recognition that foreign capital was an essential component of the Indonesian economy as it was then structured. Simply removing foreign capital without changing the basic structure of the economy had produced only economic disintegration. Because the generals had no desire to institute revolutionary structural changes in the society and the economy their only choice was to bring back foreign capital, and in this decision they became associated with a group of economists who believed that economic development could be achieved only through economic growth induced by the infusion of foreign capital. The New Order technocrats began the construction of a

state policy designed to effect the reintegration of the Indonesian economy into global capitalist structures.[69]

One of the central thrusts of the cultural politics analysis has been to portray the conflict between the generals and the technocrats in terms of a cultural conflict between regularizers (secular modernizers) and patrimonial bureaucrats with a traditional Javanese perspective on appropriate political and economic behavior.[70] This conflict certainly exists, but it contributes little to our understanding of Indonesian politics unless we recognize that it is subordinate to a wider common interest between technocrats and generals, and that the increasing rationalization and regularization of the state apparatus and political relationships are related to fundamental changes taking place in the structure of the economy and the nature of class relationships.

The New Order is a regime operating in a social formation where the dominant economic form is in the process of transformation from enclave export-commodity production to export-promotion industrialization. In the enclave export production social formation, the demands upon the state are minimal. The bulk of the population remain within the agricultural and petty commodity production sector, where the responsibilities of the state are primarily concerned with tax collection and perhaps maintaining buffer stocks of rice. Enclave commodity productions requires limited infrastructure, apart from property guarantees and road and rail links from the plantations and mines to the seaports. Production and investment remain in the hands of foreign bourgeoisie and, in the case of Indonesia, Chinese merchants take care of domestic trade.

Within this context, the state sits astride access to trade and exploitation of resources and draws tribute for the granting of access. Pertamina, Timah, Aneka Tambang, and other state instrumentalities are essentially terminals for granting access to oil and minerals and collecting revenues from the concession holders. Therefore, the path to wealth for indigenous Indonesians lies not in investment and accumulation as a bourgeoisie but in gaining control of the strategic apparatus of the state. Since the late 1950s it has been the military which has dominated these strategic terminals and built for itself independent sources of finance.[71]

To a large extent, the state's ability to sit in apparent isolation from domestic social forces is the result of its capacity to derive finance from the foreign bourgeoisie, not only in the form of oil and mineral revenues but in the form of high levels of foreign loans directed through the state by IGGI, IMF, and the World Bank.[72] At the same time, the foreign bourgeoisie cannot directly supplant the generals of the New Order and are forced to allow them relative autonomy, which means that the state is able to apply pressure for greater shares of the surplus, both in the form of public revenue for the state and private rake-offs for individual officials and generals.[73] The relative aspect of state autonomy refers to the limits imposed by the generals' need to avoid fundamentally damaging this social and economic order.

Yet there are several contradictions within this articulation of patrimonial bureaucrats and corporate capital. The capital which returned to Indonesia in 1965 was not that of the colonial Dutch trading-houses but that of Japanese and American transnational corporations. It is increasingly being channeled into industrial production, not only in import-substitution manufacture and assembly but in export-promotion industrialization of textiles, metal engineering, plastics, car batteries, electronics, and other manufactures suited to the low labor costs in Indonesia. Sustaining this high-growth industrial capitalism involves the state in an entirely new project. It is now required to provide a much more complex economic infrastructure, including reliable suppplies of electricity and water, communications and transport systems, education, health services, and public utilities for the burgeoning urban populations. Complex fiscal policies must be carefully managed to allow for debt servicing and to provide exchange rates conducive to increased export earnings and capital inflow.[74] Complex legal frameworks must be developed for foreign corporate investment and relationships between the state and international finance agencies. At the same time, the state can no longer allow the bulk of the population to be isolated from centralized and regularized structures of control. Wage labor must be brought under rigorous control to prevent strikes and ensure the low wage levels conducive to accumulation. The urban unemployed, rural landless, economic nationalists, and anti-Chinese Muslims all present more fundamental threats, not only because their numbers are growing but because they threaten the increasingly structured and delicate social and economic order essential for the accumulation process. Consequently, the state must maintain a highly structured and regularized apparatus of administration and political control simply because the old patrimonial tribute-gathering state cannot cope with the tasks inherent in the new state project.

The New Order is itself a microcosm of the struggle between the patrimonial forms of the old enclave production and peasant social formation and the new regularized authoritarian form of an industrializing Indonesia. While the generals have shown a willingness to regularize the apparatus of political control (Kopkamtib and Bakin), the bureaucracy in general and the military in particular,[75] there is a natural reluctance to relinquish patrimonial control of the strategic economic terminals of the state apparatus. The continuing struggle for control of Pertamina between the technocrats and the generals (who wish to operate it under more personalized control) is a major example of this type of conflict.[76]

Aside from the interaction between the forms of the state and of the economic system embodied in developing new state projects, the implications which the spread of capitalist relations of productions has for both the class structure of New Order Indonesia and, in turn, for the form of the New Order state deserve our attention.

The first implication is the increasing importance of a new auxiliary class of officials: managers, technocrats, technicians, and professionals. The exclusion of

this class from the strategic offices of power, and the absence of any genuinely representative political structures or rule of law have created antagonism between them and the military rulers. Nevertheless, their general attachment to the existing economic order and the relative privilege of their position have made them cautious of courting alliances with the "popular" forces. While the New Order regime has resisted demands for political participation and the rule of law, it has recognized that an educated and skilled "middle class" or intelligentsia is increasingly essential to a society engaged in industrialization. In effect, the political alliance of the urban middle-classes and the military rests upon the maintenance of increasing living standards and employment opportunities for the former. In any case, the divisions which clearly separated the military from the urban intelligentsia in the 1960s are becoming blurred as the military move into civilian administrative positions and into the culture of the urban intelligentsia. This trend of increasing integration suggests that it is likely that political relationships between the military regime and the urban intelligentsia will be characterized less by conflict over representative democracy and rule of law than by incorporation of the civilian intelligentsia into a broader technocratic authoritarian state less exclusively military in its composition, despite continuing reliance on military power for its political survival.[77]

The most powerful social force generated under the New Order has been an alliance of foreign, Chinese, and indigenous bourgeoisies. These are constituted within business groups taking the form of a complex series of joint venture partnerships in which, as a general pattern, the bulk of the capital is provided by foreign partners, while distribution, subcontracting, and often management is provided by Chinese partners, and political protection by indigenous officials. Such bourgeois alliances range from multimillion-dollar business groups with interests in a wide range of industrial, resource, property, and service industries to smaller joint ventures between local military commanders and local Chinese businessmen involving construction or transport contracts.[78]

The movement of indigenous shareholders into industrial production is important for two reasons. First, indigenous partners are incorporated into the ventures as shareholders. With forestry or trading concessions, the officials who controlled the concession often simply sold it or demanded a share of the proceeds—i.e., a share of the value of lumber existing on the lease. However, industrial production involves a process of expanded capital accumulation in which capital is invested and relative surplus product generated. As a shareholder, the indigenous partner develops a vested interest in profitability and in the provision of the social, economic, and political conditions conducive to profitability. In this way, the official ceases to be a simple tribute-gatherer, even though he may provide licenses and concessions rather than capital and management, and becomes an integral, capital-owning member of the bourgeois alliance.

Second, the development of a broad bourgeois alliance is significant for the tensions and contradictions inherent within the alliance and the pressures these

place upon the New Order state. At the same time that the national fraction of the bourgeoisie in Indonesia demands integration with foreign capital, there is conflict over the terms of integration and, in some cases where national business feels it is able to operate without foreign assistance, demands for the exclusion of foreign capital from some sectors.[79] While the alliance of foreign and Chinese bourgeoisies with indigenous officials or business clients is being consolidated at one level, it is being vigorously opposed by the indigenous petty bourgeoisie excluded from the alliance and consequently in decline.[80] Similarly, opposition to the alliance comes from technocrat and urban intelligentsia elements who object to the irregular and personal appropriation of state power which often underpins these bourgeois alliances and interferes with regularized and predictable economic planning and use of state resources.

The state, therefore, becomes the mediator of the conflicting interests operating within this class alliance, and its economic policies cannot be understood without an appreciation of the structure of the intraclass conflict, and of the role played by the state in general and individual officials in particular in the accumulation process.

Conclusion

The intention of the latter part of this essay has been to draw attention to the influence of changing economic structures and social relations of production upon the form of the New Order state. The Indonesian social formation must be seen in the context of a revolutionary process: capitalist revolution. Capitalism in Indonesia, which formerly took mainly the form of enclave export-commodity production, is now increasingly characterized by industrialization and the economic ascendancy of an international industrial bourgeoisie. Consequently the state project becomes more complex with the need to provide more sophisticated economic infrastructure and fiscal and monetary policies. The pressures for regularization of the state apparatus are a consequence of the need to provide the general conditions of reproduction for industrial capitalism. We therefore cannot understand the struggle between patrimonial and rational forms as simply struggle between priyayi cultural perspectives within the process of material transformation.

At the same time, the capitalist revolution has created new class alliances and conflicts which shape the political process. Despite the fact that no social class is as yet powerful enough to impose direct political control over the New Order state, in effect, provides the general political conditions of existence for a bourgeois alliance dominated by foreign industrial capital. At the same time, the state mediates the complex tensions within this alliance. The two most pressing questions for the future are:

1. Will the expansion of capitalist accumulation generate a domestic and primarily indigenous bourgeoisie, both agrarian/kulak and industrial, of sufficient economic and social power to achieve more direct political control over a state hitherto dominated by a political class of military politico-bureaucrats?

2. What effect will the development of capitalism in Indonesia have upon the bulk of the population? At present, concentration of landholdings, increasing population, and the development of capitalist farming is generating large numbers of rural landless and urban unemployed unable to be contained within traditional patron-client networks or absorbed into an industrial workforce. What will be the long-term social and economic impact of this class? Will the long-term development of industrial capitalism in Indonesia generate a large proletariat constituting a major source of political and social power contrary to the politico-bureaucratic state and to the bourgeois alliance?

The answer to these questions is tied to the degree to which the form of capitalism is transformed from enclave production to industrial production and the degree to which capitalist social relations of production replace petty commodity and agricultural subsistence production. The thoroughness of the capitalist revolution in Indonesia is in turn dependent upon:

a) The degree to which the global logic of accumulation continues to direct foreign capital into Indonesia because of the attractiveness of low wages and the capacity of the Indonesian state to supplement the attractiveness of low wages with political stability, a disciplined workforce and an adequate economic infrastructure.

b) The degree to which the capitalist state in Indonesia, constituting the general interest of the bourgeoisie in Indonesia, is able to cope with the social and political conflict generated by capitalist industrialization.

Notes

1. Friedrich Engels, Letter to Conrad Schmidt, October 27, 1890 (in *Werke*, Vol. 37, p. 494), translated in *Marx and Engels: Basic Writings on Politics and Philosophy*, ed. Lewis S. Feuer (Garden City, N.Y.: Doubleday Anchor Books, 1959), p. 407.
2. Clifford Geertz, *The Religion of Java* (Chicago: University of Chicago Press, 1960).
3. Several scholars have analyzed Javanese communities using the aliran model. See Clifford Geertz, *The Social History of an Indonesian Town* (Cambridge, Mass.: MIT Press, 1965); Robert R. Jay, *Religion and Politics in Rural Java* (New Haven: Yale University Southeast Asia Studies, 1963); Lance Castles, *Religion, Politics and Economic Behavior in Java: The Kudus Cigarette Industry* (New Haven: Yale University Southeast Asia Studies, 1967).
4. Parsons posits a tradition/modernity dichotomy in which cultural pattern variables are the distinguishing feature. Traditional patterns of ascription, particularism, diffusion, patrimonialism, and authoritarianism are juxtaposed to modern cultural traditions of secularism, universalism, rationalism, and achievement orientation. Talcott Parsons, *The Social System* (Glencoe: The Free Press, 1951). This approach is applied most specifically to political change in *Comparative Politics: A Developmental Approach*, ed. Gabriel A. Almond and G. Bingham Powell, Jr. (Boston: Little Brown, 1966). Andre Gunder Frank has pointed out the contradictions in such a categorization in his "Sociology of Development and Underdevelopment of Sociology," *Catalyst*, 3 (1967), pp. 20-73, but to my mind the greatest inadequacy of this approach is its failure to explain change. It constitutes little more than an exercise in comparative statistics.
5. An interesting work on the "modernizing elite" and the approach of political science to this group in Indonesia is: R. William Liddle, "Modernizing Indonesian Politics" in *Political Participation in Modern Indonesia*, ed. R. William Liddle (New Haven: Yale University Southeast Asia Studies, 1973), pp. 177-206.

6. The intention of this section of the paper is to provide a general analysis of the central theoretical thrust of political science as it was applied to Indonesia in the period up to 1965. Quite clearly, many political scientists did mention economic and social factors in their analyses. My point, however, is that social and economic change has not been systematically incorporated into a theoretical framework for political analysis, and in cases where politics is not treated as an autonomous level with a self-generating dynamic, it is generally explained in cultural terms.
7. Ithaca: Comell University Press, 1962. See also *Feith's* piece on Guided Democracy, "Indonesia's Political Symbols and Their Wielders" in *Southeast Asia: The Politics of National Integration*, ed. John T.McAlister (New York: Random House, 1973), pp. 499-516.
8. The work of Samuel P. Huntington is most important here. See his *Political Order in Changing Societies* (New Haven: Yale University Press, 1968); "Political Development and Political Decay," *World Politics*, 17, 3 (1965), pp. 386-430; "The Change to Change, "*Comparative Politics*, 3 (1971). For analyses of the transformation of modernization theory, see Donagh O'Brien, "Modernization, Order and the Erosion of a Democratic Ideal," *Journal of Development Studies*, 8, 4 (1972), and D. C. Tipps, "Modernization Theory and the Comparative Study of Societies,"*Comparative Studies in Society and History*, 15, 2 (1973), pp. 199-226.
9. Probably the most representative collection of works using this approach is John J. Johnson, ed., *The Role of the Military in Underdeveloped Countries* (Princeton: Princeton University Press, 1962).
10. See John M. Allison, "Indonesia: Year of the Pragmatists," *Asian Survey*, 9, 2 (1969), pp. 130-37; Guy J. Pauker, "Indonesia: The Age of Reason? "*Asian Survey*, 8, 2 (1968), pp. 133-47.
11. Donald Emmerson has written an interesting article on the tendency for the New Order to repress and exclude, criticizing this tendency not so much on the grounds of its antidemocratic nature but rather, in terms of the Huntington thesis, that its very success in closing off channels of participation renders it politically unable, in the long run, to maintain order and stability. Donald K. Emmerson, "The Bureaucracy in Political Context: Weakness in Strength," in *Political Power and Communication in Indonesia*, ed. Karl D. Jackson and Lucian W. Pye (Berkeley: University of California Press, 1978), pp. 82-136.
12. Even those who strongly support the economic policies of the New Order are clearly worried by the way incompetence and corruption undermine the attainment of policy goals. Implicitly, they see the solution lying in regularization of the state and bureaucratic apparatus. This theme is evident in the writings of Heinz Arndt in the *Bulletin of Indonesian Economic Studies* [henceforth BIES]. For example, see his "Survey of Recent Developments," BIES, 14, 1 (1978), pp. 26-28.
13. Ithaca: Comell University Press, 1976.
14. Paper presented to Department of Politics Seminar, Monash University, 1977.
15. In *Political Power and Communications*, ed. Jackson and Pye, pp. 3-42.
16. Emmerson, *Indonesia's Elite, p. 247.*
17. Ibid., p. 250.
18. Ibid., pp. 250-51.
19. Liddle, "Models of Indonesian Politics,".p.5.
20. See R. W. Liddle, *Cultural and Cuass Politics in New Order Indonesia*, Research Notes and Discussion Series No. 2 (Singapore: Institute of Southeast Asian Studies, 1977).
21. Rex Mortimer, "Indonesia: Growth or Development?" in *Showcase State*, ed. Rex Mortimer (Sydney: Angus & Robertson, 1973), p. 66.
22. Liddle, *Cultural and Class Politics*, p. 26.
23. Ibid., p. 23.
24. Jackson, "Bureaucratic Polity," p. 3.
25. Ibid., p. 21.
26. Jackson, "Political Implications," pp. 34-42.
27. Ibid., pp. 35-36.
28. There are several writers who have analyzed the New Order regime as one primarily shaped by domestic class structures and the form of Indonesia's integration into a global capitalist order. See Mortimer, "Indonesia: Growth or Development?"; Herbert Feith, "Political Control, Class Formation and Legitimacy in Suharto's Indonesia," *Kabar Seberang*, 2 (1977); Herbert Feith, "Repressive-Developmentalist Regimes in Asia: Old Strength, New Vulnerabilities," Presented at the Conference on Indonesian Class Formation, Monash University, August 1979, Richard

Robison, "Towards a Class Analysis of the Indonesian Military Bureaucratic State, "*Indonesia*, 25 (April 1978), pp. 17-40.

29. Here we must take account of the proposition that the social character of a regime is not defined by the class origin of those who occupy the state apparatus but by the nature of state policy. For example, a bourgeois state is not necessarily a state where the offices of power are occupied by the bourgeoisie or even a state where bourgeois political parties wield ultimate political authority. Primarily it is a state which provides the economic conditions for capital accumulation and political protection for the bourgeoisie in the process of class-conflict. This concept will be developed later in the paper. Consequently, we should be looking at the foreign and domestic capital investment laws, policy emphasis upon import-substitution industrialization and export-promotion industrialization, credit policies, and foreign exchange policy if we are to understand the socioeconomic character of the New Order state.
30. Robison, "Towards a Class Analysis."
31. David Levine, "History and Social Structure in the Study of Contemporary Indonesia, "*Indonesia*, 7 (April 1969), pp. 5-19.
32. See John O. Sutter, *Indonesianisasi: Politics in a Changing Economy, 1940-1955*, 4 vols., Southeast Asia Program Data Paper (Ithaca: Cornell University, 1959); Ralph Anspach, "Indonesia," in *Underdevelopment and Economic Nationalism in Southeast Asia*, ed. F.H. Golay et. al. (Ithaca: Cornell University Press, 1969), pp. 111-201; Lance Castles, "Socialism and Private Business: The Latest Phase," *BIES*, 1 (1965), pp. 13-45; Hans O. Schmitt, "Post-Colonial Politics: A Suggested Interpretation of the Indonesian Experience, 1950-1958, *"Australian Journal of Politics and History*, 9, 2 (November 1963), pp. 176-83.
33. Richard Robison, "Capitalism, and the Bureaucratic State in Indonesia: 1965-1975" (Ph. D. dissertation, Sydney University, 1977) ch. 9.
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36. Jim Hinkson, "Rural Development and Class Contradiction on Java," *Journal of Contemporary Asia* [henceforth *JCA*], 5, 3 (1975), pp. 327-36; F. Husken, "Landlords, Sharecroppers and Agricultural Labourers: Changing Labour Relations in Rural Java," ibid., 9, 2 (1979).
37. Robison, "Capitalism, and the Bureaucratic State," ch. 8.
38. For example, most foreign corporations are now excluded from certain sectors of production and are required to take indigenous joint-venture partners, while production-sharing agreements between the state and foreign resource and energy ventures gain for Indonesia a substantial share of profits by world standards.
39. The question of the relative autonomy of the state has been central to a debate on the postcolonial state relating largely to the South Asian and African experience. Once again the debate is one between determinists who view the state as the instrument of the ruling class and structuralists who tend to see the state as being relatively autonomous of direct control by social forces but ultimately subject to the limits imposed by the logic of the accumulation process and reflecting the class struggle in society at large. See Hamza Alavi, "The State in Post-Colonial Societies," *New Left Review*, 74 (1972); W. Zeimann and M. Lanzendorfer, "The State in Peripheral Societies," *The Socialist Register* (1977). The collection of articles in H. Goulbourne, ed., *Politics and the State in the Third World* (London: MacMillan, 1979), are most useful in looking at this debate.
40. Benedict R. O'G. Anderson, "The Idea of Power in Javanese Culture," in *Culture and Politics in Indonesia*, ed. Claire Holt et al. (Ithaca: Cornell University Press, 1972), pp. 1-70; Ann Ruth Willner, "The Neotraditional Accommodation to Political Independence: The Case of Indonesia," in *Southeast Asia*, ed. McAlister, pp. 517-41.
41. Anderson, "Idea of Power," p. 49.
42. Ken Ward, "Indonesia's Modernization: Ideology and Practice," in *Showcase State*, ed. Mortimer, pp. 67-82.
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50. Rex Mortimer, "Class, Social Cleavage and Indonesian Communism," *Indonesia*, 8 (October 1969), pp. 1-20.
51. Benedict J. Kerkvliet, *The Huk Rebellion* (Berkeley: University of California Press, 1977), esp. ch. 1.
52. Hamza Alavi, "Peasant Classes and Primordial Loyalties," *Journal of Peasant Studies*, 1, 1 (1973).
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54. Ibid., p. 15.
55. William L. Collier et al. "Tebasan System, High Yielding Varieties and Rural Change," *Prisma*, 1, 1 (May 1975), pp. 17-31.
56. The literature on the Asiatic mode of production is substantial. Samir Amin provides an interesting discussion in "Modes of Production and Social Formations," *Ufahamu* (Winter 1974); and in his article, "Social Characteristics of Peripheral Formations: An Outline for an Historical Sociology," *Berkeley Journal of Sociology*, 21 (1976-77), he discusses the concept of a state class in contemporary and social formations.
57. For example, Onghokham found in Madiun that the class with traditional use rights of land (*sikep*) was undermined by the system of corvee labor and state plantations established by the Dutch after 1830, and villages returned to a communally oriented form of landholding. On the other hand, in Pasuruan and Probolinggo, Elson found an increase in the number of larger landlords and villagers who relied increasingly on wage labor for income. See: Onghokham, "The Residency of Madiun: Priyayi and Peasant in the Nineteenth Century" (Ph. D. dissertation, Yale University, 1975); R. E. Elson, *The Cultivation System and Agricultural Involution*, Monash University, Centre of Southeast Asian Studies Working Papers, No. 14 (Clayton, Victoria, 1978).
58. An excellent picture of the class structure of late colonial Indonesia is given by George Kahin in the first chapter of his *Nationalism and Revolution in Indonesia* (Ithaca: Cornell University Press, 1952). The best general socioeconomic analysis of colonial Java is Wertheim's *Indonesian Society in Transition* (The Hague: van Hoeve, 1956).
59. Kahin, *Nationalism and Revolution;* Castles, Religion, Politics; Sutter, *Indonesianisasi*; and Robert Van Niel, *The Emergence of the Modern Indonesian Elite* (The Hague: van Hoeve, 1960).
60. The views of the gradualists are summarized in Robison, "Capitalism, and the Bureaucratic State," pp. 48-53.
61. See James F. Petras, "State Capitalism and the Third World," *JCA*, 6, 4 (1976), pp. 432-43; J. Leal, "The Mexican State, 1915-1973: An Historical Interpretation," *Latin American Perspectives*, 2, 2 (1974); R. Munck, "State, Capital and Crisis in Brazil, 1929-1979," *The Insurgent Sociologist*, 9, 4 (1980). The arguments developed here suggest that industrialization invariably develops into export-oriented manufacture characterized by increasing foreign control over the forces of production with the local bourgeoisie and the national state as minor partners.
62. Robison, "Capitalism, and the Bureaucratic State," pp. 58-62.
63. Sutter, *Indonesianisasi*, pp. 1017-35; Anspach, "Indonesia."
64. Schmitt, "Post-Colonial Politics."
65. For a general overview of anti-Chinese conflicts and movements in the post-colonial period, see J.A.C. Mackie, "Anti-Chinese Outbreaks in Indonesia, 1959-68," in *The Chinese in Indonesia*, ed. J.A.C. Mackie (Melbourne: Nelson, 1976), pp. 77-138.
66. Robison, "Capitalism, and the Bureaucratic State," pp. 437-45.
67. Details of business groups which manifest these alliances are to be found in ibid., Appendix B.
68. Unfortunately there is as yet no comprehensive political economy of Guided Economy. Of the

existing sources the most useful are: T.K. Tan, ed., *Sukarno's Guided Indonesia* (Brisbane: Jacaranda, 1967), and K. Thomas and J. Panglaykim, *Indonesia—the Effects of Past Policies and President Suharto's Plans for the Future* (Melbourne: CEDA, 1973), ch. 3.

69. For contrasting views on the role of the technocrats in the process of economic change see David Ransom, "The Berkeley Mafia," *Ramparts*, 9 (1970), and Bruce Glassburner, "Political Economy and the Soeharto Regime," *BIES*, 14, 3 (1978).
70. Much of the emphasis has been on the way in which cultural perceptions of patrimonial politico-bureaucrats constitute an obstacle to the emergence of industrial capitalism and rational decision making and very little upon the way in which changing economic structures and class relationships influence transformations of cultural perspectives and bureaucratic structures. Even radical critiques fall into this category; see Richard W. Franke, "Limited Good and Cargo Cult in Indonesian Economic Development," *JCA*, 2, 4 (1972), pp. 366-81.
71. Harold Crouch, *The Army and Politics in Indonesia* (Ithaca: Cornell University Press, 1978), ch. 11; Robison, "Capitalism, and the Bureaucratic State," chs. 6 and 7.
72. The foreign loan component of the development budget for 1979 was 42.4 per cent. Oil exports account for 65 per cent of public investments and 13 per cent of GNP, exceeding the total development budget. Ho Kwon Ping, "Back to the Drawing Board," *Far Eastern Economic Review*, April 27, 1979.
73. Scandals over payoffs to Indonesian generals by foreign or Chinese businessmen occur quite regularly. The most recent is the case of the late Haji Thahir, a former official of Pertamina who was found to have deposited $80 million in a private bank account in Singapore. *Kompas*, February 13, 1980; *Asiaweek*, March 28 and August 8, 1980.
74. For example, the complex implications of the 1978 devaluation of the rupiah for the Indonesian economy are treated by Peter McCawley, "The Devaluation and Structural Change in Indonesia," Paper presented to the Australian National University Research School of Pacific Studies Seminar Series, November 16, 1979.
75. Emmerson, "Bureaucracy in Political Context;" Harold Crouch, "Patrimonialism and Military Rule in Indonesia," *World Politics*, 31, 4 (1979), pp. 571-87.
76. P. McCawley, "Some Consequences of the Pertamina Crisis in Indonesia," *Journal of Southeast Asian Studies*, 9, 1 (1978); H.W. Arndt. "PT Krakatau Steel," *BIES*, 9, 2 (1975), pp. 120-26. The concept of a new form of Third World fascism or repressive technocratic authoritarianism and the relationship of these political forms to increasing industrialization has been central to recent political analyses of Third World social formations. See, for example, Philippe C. Schmitter, "The 'Portugalization' of Brazil," in *Authoritarian Brazil*, ed. Alfred Stephan (New Haven: Yale University Press, 1973), pp. 179-232; Fernando H. Cardoso, "Associated Dependent Development: Theoretical and Practical Implications," in ibid., pp. 142-76; R. Luckham, "Militarism, Class, Force and International Conflict," *Institute of Development Studies Bulletin* [Sussex University], 9, 1 (1977); Herbert Feith, "Repressive-Developmentalist Regimes in Asia: Old Strengths, New Vulnerabilities," Paper presented to the conference on Indonesian Class Formation, Monash University, August 10-13, 1979. The central thesis of these arguments is that the increasingly repressive and authoritarian nature of the regimes is related to the increasing dominance of foreign industrial bourgeoisies and the development of a growth-oriented industrial economy in which the military gain political ascendancy over social classes, especially the national bourgeoisie and the popular classes—peasants and workers. Treatment of this question, however, is absent in the analyses of the New Order proposed by North American political science.
77. Power clearly rests with the military and there is no immediate likelihood of any shift to effective civilian rule. However, we must distinguish between the political power-holders, i.e., the military commanders, and the state officials. The bulk of the military officers in the state apparatus are not power-holders in that they do not command military power. They are, in effect, officials drawn from the most privileged arm of the state bureaucracy. Increasing the civilian component of state officialdom would offer no fundamental threat to military political dominance.
78. Robison, "Capitalism, and the Bureaucratic State," chs. 6 and 7, and Appendix B.
79. For example, the 1974 riots in Jakarta followed a prolonged critique of state economic policy and foreign economic domination by the urban intelligentsia, pengusaha pribumi, and the local Chinese bourgeoisie. See Robison, "Capitalism, and the Bureaucratic State," chs. 8 and 9, for an

overview of the critique and government reactions. The line taken by the Centre for Strategic and International Studies (CSIS) clearly reflects the interests of an emerging national bourgeoisie. It calls for government action to strengthen national capital within the framework of nationally integrated economic units and refers to the Singapore, Meiji Japan, and even Guided Economy models as guides for action. See, for example, J. Panglaykim, "Struktur Domestik Dalam Interdependensi Ekonomi Dunia," *Analisa Masalah-Masalah Internasional*, 2, 12 (December 1973), pp. 37-44, and Kwik Kian Gie, "Foreign Capital and Economic Domination," *Indonesian Quarterly*, 3 (April 1975), pp. 39-72.

80. While the bulk of the indigenous petty bourgeoisie, largely through right-wing Muslim newspapers such as *Nusantara* and *Abadi*, were castigating business alliances between generals and Chinese, this traditional trading and commodity-producing bourgeoisie clearly represents a declining force. It would appear likely that real development of a national bourgeoisie will take place within the framework of the business alliances described. Expressions of the views of businessmen tied into these alliances are to be found in *Seminar Strategi Pembinaan Pengusaha Swasta Nasional 29-31 Mei* (Jakarta: Yayasan Proklamasi, 1975).

Chapter 4
Orientalism & Contemporary Writing in Southeast Asian Politics

Said's *Orientalism* is one of several recent publications which have attempted to provide a systematic analysis of the influence of orientalism, as a scholarly tradition, upon the Western study of Asia. Together with Turner's *Marx & the End of Orientalism*, Said's work has presented a concept of orientalism far more complex than its popular caricature as a scholarly tradition peopled by amateur eccentrics obsessed with the learning of ancient and often extinct languages and the study of ancient and obscure texts. Whilst orientalism in this incarnation still exists, the real influence of orientalism as a contemporary and pervasive intellectual and ideological influence upon Western scholarship on Asia cannot be appreciated if our concept of orientalism does not extend beyond what is, in intellectual terms, a straw man.

What I intend to do in this brief paper is not to review either Said's or Turner's work (and the latter is probably more relevant for social scientists), but to draw out a picture of some of the major intellectual and ideological features of orientalism as they (and particularly Turner) have analysed it. From there I will examine some of the ways in which orientalism has pervaded contemporary political analysis of Southeast Asia and note some of the political and ideological implications of these analyses.

Features of Orientalism

a) Orientalism is concerned with "civilization" as something within which classical culture is the crucial feature. Hence, ancient philosophy, architecture and literature become the keys to uncovering the symbolic significance of culture (Turner, p. 6). The ancient, as the root of civilization, assumes an importance for the study of the East which it no longer does for the West since the decline of classicism as a dominant intellectual mode.

b) Language, and particularly ancient language, is the key to civilization and culture. Hence: "the major problems of research for Orientalists are matters of philology, not epistemology" (Turner, p. 7). Whereas Western society is studied by people with disciplines like economics, politics, etc., the study of the East is made

by Sinologists, Indonesianists, Egyptologists etc., whose tools are not disciplines but access to the "culture" through language.

c) Eastern society is static and timeless. Whereas Western history is a process of economic transitions, Eastern society is one of cultural blossoming and decay. As Turner points out, in the case of Marxists this feature is embodied in the concept of the Asiatic Mode of Production, an unchanging mode which must be broken by the intrusion of Western capitalism.

d) Orientalism is concerned with the world of elites and politics is conceived as a process of internecine struggles of royal families and the oscillation of dynasties (Turner, p. 6). The state, and the nature of power is conceived in terms of personal relationships. Relationships between "state" and "people" are largely dependent upon the benevolence or malevolence of the despots as individuals.

e) Eastern society is conceived as a mosaic of ethnicity, religion and tribe in which class is a relatively unimportant factor.

Orientalism in Contemporary Political Analysis

As far as the study of politics in the recent and contemporary history of Southeast Asia is concerned, the influence of orientalism is strong. Its main effect has been to take politics out of its material context, to portray political systems as harmonious cultural accords between rulers and the ruled and to mask the real processes of coercion and resistance which constitute the stuff of politics. They have negated, neglected or obscured the economic and class aspects of power and failed to place "elites" within a setting of class and economic relationships. In effect, orientalism has provided a major ideological and intellectual underpinning for authoritarian rule in contemporary Southeast Asia.

In the case of Malayan history, Sullivan has drawn our attention to the Court-centric view of the politics of the pre-independence period pushed forward by contemporary historians. Colonial intervention was justified in terms of saving Malaya from the chaos of decay and decline.

Turner (chapter 5) points out that the question of doctrines of political rights embodied in classical Islam underpins orientalist debates about the absence of revolution in the Middle East rather than any consideration of social and economic preconditions or political organisation which might have underlain any analysis of Western revolution. Failure to develop economically is widely explained as an essentially cultural phenomenon, with Boeke's theory of dualism being used as the archetype for this interpretation. Despotism is explained in terms of cultural factors which either make people indifferent to politics (see Hewison's critique of Thai political history) or psychologically submissive to strong leadership (see Robison's critique of psycho-cultural analyses of Indonesian political history).

The flight from materialism in the analysis of the state is expressed in several contemporary works. Geertz's *Negara* is one remarkable example. In his analysis of the pre-colonial state in Bali he argues:

> Court ceremonialism was the driving force of court politics; and mass ritual was not a device to shore up the state, but rather the state, even in its final gasp, was a device for the enactment of mass ritual. Power served pomp, not pomp power. (p. 13)

Tempting as it may be to explore this approach, it is more fruitful to turn to Ben Anderson's "The Idea of Power in Javanese Culture," which is probably a more influential work and is certainly more contemporary. After a long exposition of the Javanese idea of Power, Anderson suggest that this cultural notion of Power is the key to understanding the day to day operations of power in Indonesia and its despotic, patrimonial and personal nature.

> Such apparently discrete aspects of Javanese political thought and behaviour in the contemporary period as the rejection of parliamentary democracy, the characteristic traits of Djakarta's inter-ethnic and international politics, the patterns of administrative organisation and internal bureaucratic relationships, the styles of post-independence leadership, the forms of corruption, and the ambiguous political position of the urban intelligentsia can and indeed should be seen as inextricably related to one another, and that link is precisely the continuing cultural hold of traditional conceptions, including conceptions about Power. (p. 63)

Corruption, for example, is explained as the consequence of the persistence of the traditional idea that the state is the possession of the ruler and office the possession of the official (at the ruler's pleasure). Such an explanation is tautological and the real question should be: "what particular political and social circumstances have allowed this concept to persist and the officials to continue to appropriate the state in the second half of the twentieth century?" Corruption after all is a relationship imposed by the powerful upon the powerless and is not at all welcomed by the latter, although it may be accepted as normal.

In Anderson's view, the crucial obstacle to a radical transformation of Javanese politics and society are these ideas "insofar as they were the lynchpin of the traditional order" (p. 63). Reform therefore depends, we must assume, upon either convincing the generals that democracy is preferable to despotism, or replacing them with a new secular, rational middle class—the carriers of modern culture. The process of reform becomes a cultural conflict and not a struggle for power. But even this prospect is taken away from us when Anderson later lifts the concept of Power (with a capital P) from its historical moorings. The "Idea of Power" becomes an immutable, eternal cultural truth, in contrast to the historical "ideas of power" (small p). It is not just an old Javanese idea; it is *the* Javanese idea.

> Although the older idea of Power may be residual in societies dominated by religious or secular nationalism, it is likely to emerge into prominence under conditions of severe stress and disturbance of routine assumptions—when institutions explained and legitimized in terms of the hegemonic cultural mode appear to be breaking down or in decay. Such circumstances evoke not so much new types of leaders or new forms of domination as ancient conceptions and ancient sources of authority.

Whilst ideas of power (small p) may reflect or constitute the interests of particular classes in specific modes of production, the "Idea of Power" (big P) is not historical

but both ancient and eternal; the timeless essence of a culture. How then can revolution or reform or even "modernization" be anything but transient and unnatural? How can despotism be anything other than the harmonious expression of Javanese "culture"?

The examples of the influence of orientalism upon contemporary political analysis are legion. The point to be made is that such an influence carries real ideological underpinnings and real political implications. Most important, the tendency to subsume the historical and the material into a concept of immutable culture denies both the reality of change and the legitimacy of resistance and revolution.

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PART III: STRUCTURAL CHANGE, INDUSTRIALIZATION AND POLITICS

Chapter 5
After the Gold Rush: The Politics of Economic Restructuring in Indonesia in the 1980s

To understand the political and economic nature of Indonesia under the New Order we must comprehend the enormous significance of oil earnings and revenues. The consolidation of the power of the state and its officials, the process of industrialization and the emergence of major domestic corporate groups have all been built around oil. Consequently the collapse of oil prices in 1981-82 and the more disastrous falls in early 1986 have posed fundamental threats to the fabric of power and policy in Indonesia.

At the heart of the upheaval has been the question of economic strategy and industrial policy. The currently dominant strategy which aims at creating an integrated national industrial base in consumer, intermediate and capital goods is enmeshed with the interests of the politically dominant state bureaucrats (politico-bureaucrats) and the major domestic corporate groups. With the fall of oil prices, the capacity of the state to provide the funds for such a strategy has been seriously eroded. Pressures for Indonesia to move its emphasis from import-substitution industrialization (ISI) to export-oriented industrialization (EOI) have been strengthened. This implies a greater integration with the new international division of labour (NIDL).

Whilst the outcome will in part be determined by such factors as commodity prices and the capacity of the state to resolve the fiscal crises produced by the oil price shocks, it is also a political struggle between, on the one hand, international

corporate capital and financial institutions and also liberal reformist elements of the domestic technocracy who favour free-trade, outward-looking policies and, on the other, the bureaucratic and corporate forces whose interests are vested in the current industrial strategy. Pressures for change within Indonesia will also be exerted by factors emanating from the evolution of the division of labour at the international level. This means that as the capacity of the state to create a national industrial economy independent of factors operating at the international level declines, it will increasingly be forced to try to carve a position for Indonesia in the new international division of labour. The success of this will in large part be determined by what investment capital can be attracted in specific sectors and what Indonesian products can be sold on the world market.

Industrial Strategy to 1981

Despite the fundamental shifts that have taken place in Indonesian politics since 1949 there has been a remarkable continuity in certain key aspects of economic policy. Two important ideological factors have underpinned this continuity. First, it has been generally accepted by successive governments that the state has a legitimate economic role and that market forces must be tempered by social objectives. Second, it has also been accepted that foreign ownership and control of the Indonesian economy be restrained, that the nurturing of domestic investment be a priority and that a significant degree of national autonomy be a basic objective in shaping the structure of the economy. This last element of economic nationalism has had important implications for industrial policy in particular, because it has meant that the drive to establish capital and intermediate goods sectors has been a central investment objective and one that has often come into conflict with the interests of international corporate capital and the ideological position of market economists in the World Bank and other international organizations (Anspach, 1969; Glassburner, 1971; Thomas & Pangkaykim, 1973).

Reasons for the persistence of these dominant threads in economic strategy exist at several levels. At the ideological level, nationalism and social justice were powerful legacies of the anti-colonial struggle, and no matter how hypocritically these sentiments have been exploited by various governments, political leaders and economic opportunists, the vision of an autonomous, powerful, industrial Indonesia has been a driving force behind long-term economic strategy.

However, economic strategy has also been meshed with the interests of the dominant political strata: the politico-bureaucrats who exercise hegemony over the state apparatus, fusing political, bureaucratic and economic power. Economic structures and policy cannot be understood separately from these interests. State power to intervene in and regulate the economy has been subject to appropriation by politico-bureaucrats not only to shape the pattern of vast state investments but also to control the allocation of state concessions for the private sector. Because the state allocates import and export licenses, oil drilling and forestry concessions,

contracts for supply and construction, as well as even permission to invest, politico-bureaucrats have been able to use these levers to influence the position of firms in the broader market structure. This political control over the economy has provided the sources of revenues, patronage and power to underpin the dominance of state officials at both socio-economic and political levels (Robison, 1986).

Finally, policies of economic nationalism and state intervention have provided the basis for the emergence of major corporate conglomerates, both public and private. State corporations such as Krakatau Steel and Pertamina, as well as major private groups including those of Liem Sioe Liong, Willem Soerjadjaja, Ibnu Sutowo and, in previous years, Dasaad and Hashim Ning, have been built upon monopoly positions and preferential access to licences, supply and credit, all derived from the intervention of the state in the economy (Robison, 1986). Combined with extensive protection of these domestic groups through tariffs and restrictions on foreign investment in certain sectors of the economy, politico-bureaucrat intervention and economic nationalism (selectively applied) have been essential to the emerging domestic capitalist class.

In the formative years of the New Order, from 1965 to the early 1970s, a retreat from economic nationalism and state intervention was brought about in part by the bankruptcy of the Indonesian economy and hence not only fiscal crisis but also the inability of domestic capital, either state or private, to engage in programmes of investment. It was this growing economic crisis combined with intensifying political conflict between the Indonesian Communist Party, the propertied classes and the military that had precipitated the collapse of the Sukarno regime and destroyed the existing political basis of nationalist, state-led industrialization. In the atmosphere of bankruptcy, hyper-inflation and economic chaos, survival took priority over nationalist economic goals for the military and the urban middle classes. Consequently the state was forced to reconstitute the economy around foreign capital investment and foreign loans. By the mid 1970s, foreign capital constituted about 50 per cent of total investment in the non-oil sector alone, and focus on major industrial projects had been abandoned in favour of import-substitution production of consumer goods, notably textiles (Palmer, 1978).

In the early 1970s, however, the pendulum began to swing back, and from 1974 we see the re-emergence of state-led economic nationalism. This resurgence was facilitated by the dramatic rise in the price of oil in the fiscal year 1973/74, boosted by further rises in the early 1980s. Oil and liquefied natural gas (LNG) constituted more than 80 per cent of foreign earnings by 1981/82, and a healthy current account and balance of payments ensued. In 1979/80 and 1980/81, Indonesia posted current account surpluses of US$2198 million and US$2131 million (see Table 2.2), and foreign currency reserves stood at US$10000 million as late as January 1982. The oil bonanza meant a surge of funds for state revenues and therefore a boost to the state's capacity to invest. In 1969, oil and LNG taxes constituted only 65.8 billion rupiahs (Rp), or 19.7 per cent of total government revenues. After a period of steady

growth, we see a significant leap in 1974/75, lifting oil tax revenues to Rp 957.2 billion, 48.4 per cent of total revenues. Between 1978/79 and 1981/82, oil tax revenue leapt from Rp 2308 billion to Rp 8627 billion, rising from 43.5 to 61.7 per cent of total revenues and from 54 to 70 per cent of domestic revenues (Table 2.5). As a result, state expenditure through the development budget was able to be increased from Rp 450 billion in 1973/74 to Rp 6940 billion in 1981/82 (Table 2.4).

However, the fact that the oil revenues were specifically used to reconstitute the drive towards state-led industrial autarchy reflected not only the persistence of economic nationalist sentiment at the ideological level but also the fact that such policies embodied the interests of the new dominant forces in Indonesia—the military bureaucrats, state managers of capital and the major domestic corporate groups—in the same way that they had reinforced the political and economic interests of their predecessors in the Sukarno regime. For the politico-bureaucrats, a centrally directed economy effectively concentrated economic power and domestic capital ownership in the hands of the state. For domestic capital, both state and private, absorption into a state-orchestrated, state-protected set of monopolies and oligopolies guaranteed their position.

Between 1969 and 1975, a major political struggle took place over the question of economic strategy between proponents of state-led economic nationalism led by Ibnu Sutowo, the director of the state oil company, Pertamina, and the technocrats of the National Economic Planning Board (Bappenas), who favoured the more open-door, free-market policies urged by Indonesia's creditors through the Inter-governmental Group on Indonesia and by the World Bank. As the terminal for the allocation of oil-drilling concessions and the collection of oil taxes, Pertamina was the strategic cornerstone of the Indonesian economy. Under the virtually autonomous direction of Ibnu Sutowo it constituted a centre of fiscal and economic power parallel to, and often competing with, the formal state apparatus and budget.

Contrary to official state policy, Sutowo was able to push ahead with the development of industrial projects (including the Krakatau steel mill) and the raising of foreign loans independent of the formal organs of economic and industrial policy and independent of the formal state budget. Under the Pertamina umbrella domestic business groups flourished with contracts and concessions. The generals were quite prepared to allow these developments, given the fact that Pertamina was also effectively providing them with extra budgetary finance and sources of economic patronage (Crouch, 1976; McCawley, 1978; Robison, 1986).

Despite the fall of Sutowo in 1975-76 and the consequent restraint of Pertamina following disclosures of massive indebtedness, the momentum established by the availability of oil money and cheap foreign loans ensured the continuing dominance of nationalist economic policies. The forces that gave coherence to this trend were part of the military and intelligence network under the direction of General Ali Murtopo. The expanding domestic corporate conglomerates, closely tied in the centres of military bureaucratic power, including the presidential palace and the

Murtopo group, were building their empires upon access to contracts, credits and monopolies made possible by state investment fuelled by oil income. Policies of state-led import-substitution industrialization had now become integral to the interests of the alliance of economic and politico-bureaucratic power.

Consequently the influence of technocrats who favoured a nationalist approach to economic planning was facilitated while that of liberal technocrats associated with the National Economic Planning Board (Bappenas) declined. With hard-line economic nationalists such as Suhartoyo and Soehoed in the Department of Industry now able to exert more influence there began a concerted move towards "industrial deepening" and the creation of backwards and forwards linkages in manufacture designed to establish self-generating, mutually reinforcing, sectoral growth (Soehoed, 1977, 1981, 1982). This involved heavy state investment in steel and other metal industries, petro-chemicals, oil refining and LNG production, fertilisers and machine tool production and the provision of infrastructure (Gray, 1982).

Although the basic aim of the industrial programme was to develop self-sufficiency with mutually reinforcing backwards and forwards linkages, a subsidiary aim was to increase the value added of production both in the ISI and EOI sectors. A primary example is the logging industry, where restrictions on the export of raw logs forced producers into wood processing, notably plywood (*Asian Wall Street Journal* (*AWSJ*), 20 June 1981, 21 July 1981). A sharp drop in the value of log exports was followed by a slow climb in the value of plywood exports, which by 1983/84 were worth US$579 million out of a total value of US$1484 million for all manufactured exports (Table 2.3). In this industry at least, the Indonesian government was able to enforce a shift in the global division of labour, moving the focus of log processing from the importing country (Japan) to the producing country (Indonesia).

At the same time, through the introduction of priority investment lists (DSP), the government reserved certain sectors, either partially or totally, for domestic investors. Foreign investors were increasingly restricted to those sectors that required special technologies and skills or large amounts of capital not available domestically, or were located in sectors with export earning potential (Rice and Hill, 1977; Suhartoyo, 1981).

In the period from 1967 to 1981/82 manufacturing value-added grew at a rate of 11.5 per cent per annum. From 1967 to 1975 this growth was essentially in relatively labour-intensive consumer goods, and the growth rate in this period, taking up a huge unfilled domestic demand, was 16.5 per cent per annum. With the ending of the easy phase in import-substitution industrialization, the move into intermediate and capital goods, with state protection, subsidy and direct investment, provided the generator for further development. Consumer goods dropped from 80.8 per cent of total value of manufactures in 1971 to 47.6 per cent in 1980, whilst intermediate goods grew from 13.1 to 33.5 per cent and capital goods from 6.1 to 16.9 per cent in the same period (Roepstorff, 1985; World Bank, Indonesia, 1985b:

61-2). By 1982, manufacturing had grown to 12.9 per cent of gross domestic product (GDP) with a total value of Rp 7681 billion, from a base of 7.3 per cent of GDP with a value of Rp 62 billion in 1967 (Table 2.1).

The major domestic investors in the industrialization process were the state corporations, especially in the major projects, but several important private domestic corporations also emerged in the fields of foodstuffs and beverages, textiles, cement, tyres, and metal fabrication, engineering and automobiles. The rise of these private investors not only facilitated extensive state protection and subsidy but had a readymade market in the burgeoning state industrial and infrastructure projects (Robison, 1986: chs 7, 9 and 10). The state was able to provide the engine of growth through its huge investments in the face of disappointing inflows of foreign capital investment in the non-oil sector since the mid-1970s. At the same time, the extent of growth in state revenues was sufficient to enable it to provide significant inputs into the rural sector through special infrastructure projects, particularly in irrigation, and through grants to regional and local authorities for construction projects (schools, roads and bridges, hospitals). And there was no shortage of largesse at the top to be creamed off for political or private purposes by the various politico-bureaucrat factions and military commands which controlled the state apparatus (Robison, 1986: ch. 7). The politico-bureaucrats of the New Order were able to simultaneously generate broad economic growth, finance themselves politically and ignore outside calls for "rationality" and regularisation. By the early 1980s it looked as if Indonesia was well on the way to developing a significant industrial base, despite the wastage and misuse of investments, because of the enormous avalanche of funds that poured apparently endlessly into the economy. At the same time, the process of industrial investment and policy was specifically consolidating the power of the politico-bureaucrats and the economic position of their corporate clients.

These developments were consistently opposed in the 1970s both by international corporate interests and financial institutions that wanted access to the Indonesian market on their own terms and by domestic political forces opposed to the increasing consolidation of state power. It was not, however, until the decline of oil prices in the early 1980s that cracks began to appear in either the configuration of power or the dominance of ISI policies.

The Fiscal Crisis of the Early 1980s

As a consequence of a substantial decline in the price of oil, Indonesia's total oil and LNG earnings rose only marginally in 1981/82 over the previous year, from US$17,298 to US$18,825 millions. In 1982/83 foreign earnings from oil dropped alarmingly to US$14,744 millions, sustaining further declines in 1983/84 to US$14,449, and in 1984/85 to US$14,341 (Table 2.3). Although improvements in non-oil export earnings were to offset this, the rapid growth in total export earnings was also brought to an abrupt halt. From a peak of US$22,998 in 1981/82 they

declined to US$18,672 in 1982-83, climbing slowly to US$20,242 in 1984/85, still below the figure of 1980/81.

Consequently, Indonesia's balance of payments were thrown into some disarray. From current account surpluses in 1979/80 and 1980/81 of over US$2 billion, the current accounts fell into *deficits* of US$2,790 million in 1981/82, US$7039 million in 1982/83 and US$4,151 million in 1983/84 (Table 2.2). Although the deficits were cushioned by healthy foreign assets which had recovered to US$10 billion by 1984/85, Indonesia was nevertheless forced to call on more foreign loans. Between 1982/83 and 1984/85 external capital requirements averaged US$6.2 billion per year, US$4.3 billion of which was raised each year through public medium-term and long-term loans and credits. By 1984 Indonesia's total disbursed and outstanding debts stood at US$28.4 billion, with a debt service ratio of 21.1 percent (Table 2.7).

The effect of the decline in oil prices on state revenues was also serious. Oil and LNG tax revenues remained fairly static between 1981/82 and 1982/83 at just over Rp 8000 billion, but due to improved performance from LNG they climbed again to an estimated Rp 10,366 billion in 1984/85 (Table 2.5). Expenditure on the major resource and industrial projects had been predicated upon the continuing exponential growth in oil revenues. A budget deficit of Rp 1,705 billion was incurred in 1981/82, Rp 1938 billion in 1982/83, Rp 3878 billion in 1983/84, and a deficit of Rp 441 billion was expected in 1984/85 (Table 2.4).

Combined with these fiscal difficulties, market contraction (both domestically and internationally) hit domestic manufacturers whose investments had presupposed continuing market growth, particularly from the state. For example, production capacity in cement rose from 5.8 million tons in 1980 to an expected 17.4 million tons in 1985, but expected domestic sales were only 10 million tons. In tyres, production capacity rose from 2.7 million units in 1978 to an expected 6.7 million units in 1985, but domestic demand was expected to be only about 4 million units. Other industries in the same situation include a wide range of consumer durables, notably automobiles and home electronic products (*FEER*, 20 January 1983; World Bank, Indonesia, 1985b: 7-8).

Responses to the Crisis

The 1981 World Bank report, Indonesia, came at a time when the crisis was becoming apparent, and it was this combined with the critical nature of some of its prescriptions that made it a contentious and influential document. In general, the World Bank's response to the Indonesian situation in this and subsequent reports was similar to its response throughout the Third World, urging fiscal constraint and free markets. To balance the budget, the World Bank argued for the removal of extensive fuel and food subsidies and the immediate development of domestic revenue sources to replace declining oil taxes. It also called for a reduction in state investment in large resource and industrial projects. This latter recommendation

was intended not only to ease fiscal pressure upon the state but also to correct what it regarded as an irrational pattern of investment and an inappropriate industrial strategy. According to the principles of comparative advantage, World Bank officials urged that the Indonesian economy be allowed to respond to the free operation of the international division of labour. Removal of state subsidies and protection would, it was argued, make way for the replacement of inefficient and costly industries such as automobile manufacture and steel production, by internationally competitive industries able to compete effectively on world markets. In conjunction with this change in strategy it was also necessary, according to the World Bank, to open Indonesia to unfettered investment by international capital (World Bank, 1981, 1984a, 1985b; *AWSJ*, 28 April 1981; *FEER*, 29 May 1981, 2 June 1983, 17 May 1984, 16 May 1985).

The Indonesian government's immediate response to the report was one of irritation. It was felt that the World Bank had not fully appreciated the social and political problems faced by the government and had taken no account of social and political objectives which must necessarily be built into economic strategy (*FEER*, 29 May 1981). At the broadest level of economic strategy the most powerful figures in the key departments—Industry (Hartato), State Secretariat (Sudharmono), the Capital Investment Board (Ginanjar Kartasasmita) and Research and Technology (Habibie)—were all to argue that real development could take place only on a firm basis of investment in capital, intermediate and even high-technology manufacture, which could be generated only by deliberate state intervention and would not be produced by free operation of an international marketplace, in reality dominated by transnational corporations (Habibie, 1983; Hartato, 1985; *Kompas*, 24 August 1985).

However, the fate of Indonesia's economic strategy in the face of the oil price crisis was not to be determined by intellectual debate over the various merits of competing theories on the part of technocrats and economists. Rather the conflict has hinged upon the determination of vested political, bureaucratic and economic interests to resist pressures for change in the status quo brought about by declining oil income and general recession. A crucial factor in the struggle has been the degree to which the edifice of political and economic power vested in the existing structures and policies can be maintained in the face of structural pressures. How much of the existing system can be dismantled without causing fundamental damage to the regime and its social and economic base? How many of the peripheral elements of the power structure can be abandoned without bringing down the regime itself? On the other hand, the powerholders are forced to consider the consequences of doing nothing given the crisis in revenue collection and foreign earnings. With each policy decision the immediate political and social interests of the various elements of the ruling group compete with the need to maintain the viability of the broad economic framework in which their dominance is embedded at a more general level. In other words, as will be demonstrated later, contradictions began to develop in some

instances between continued economic growth and the political and economic interests of the dominant forces.

Reformist Moves

Reforms that had long been urged by the World Bank began to be adopted in the 1980s because the increasing fiscal difficulties of the Indonesian state and the deterioration of the trade balance made urgent action unavoidable. In 1983 the government instituted a devaluation of 27.6 per cent to boost non-oil exports, which had flagged since the previous devaluation of 33.6 per cent in 1978 (*AWSJ*, 4 April 1983; *FEER*, 14 April 1983). Various export incentives were introduced, and a counter-purchase scheme was initiated requiring foreign firms obtaining domestic government contracts in excess of Rp 500 million to purchase and export from Indonesia goods to the value of those imported under the terms of the contract. This last measure was a tactic that certainly did not please the World Bank or, particularly, the foreign companies forced to purchase the Indonesian goods (*AWSJ*, 11 and 14 December 1981; *Indonesian Commercial Newsletter* (*ICN*), 23 August 1982).

To reduce government expenditures, subsidies to basic food items and fuel to the value of Rp 608 billion were slashed in the 1982/83 budget and have been progressively reduced in subsequent budgets (Dick, 1982). Most important, it was announced in May 1983 that forty-eight large existing and planned public-sector project investments with a value of US$20 billion would be shelved, rephased or cancelled (*FEER*, 26 May and 4 August 1983).

To generate domestic sources of state revenue the government instituted changes in personal income and corporate taxes in 1983 and introduced a value-added tax (VAT) in 1985. As mentioned earlier these items had always constituted a disproportionately small part of domestic revenues. Personal income tax, for example, had slowly dwindled from 6.5 per cent of total revenues in 1968 to 2.9 per cent in 1983/84 (*FEER*. 1 December 1983, Rahardjo, 1985; Sjahrir, 1985a). To increase the potential for domestic capital accumulation it was announced in June 1983 that credit ceilings and interest rates imposed on private banks would be removed (Arndt, 1983: 23, 24; Booth, 1984: 12-17; *FEER*, 22 September 1983).

All of these moves, however outwardly benign, held implications for the structure of social and political power. Rapid price rises followed the removal of subsidies and constituted a potential threat to social stability particularly in the burgeoning cities. Introduction of new taxes held implications not only for those to be taxed, and for the general willingness of capitalists to invest, but also for the Department of Taxation and its officials—long considered a department where fortunes could be made. It would be necessary to impose rule of regulation and procedure in the Department of Taxation if the reforms were to succeed, thereby making inroads into the dominance of officials over the apparatus of the state. Finally, deregulation of the banking sector (which, incidentally, led initially to a

surge of interest rates and hence a rush to deposit rather than borrow) restricted the degree of control over loan funds and their dispersal that could be exerted by officials through Bank Indonesia (Booth, 1984: 12). In some cases, reform required direct assaults upon the bastions of vested interests, and such assaults were indeed made in the cases of the state oil company, Pertamina, and the Department of Customs and Excise.

As mentioned earlier, Pertamina had long been the major source of extra budgetary funds for the military and various political factions, as well as a source of personal funds for individual officials, and for development projects beyond those funded by the normal development budget. Conflict between the various political appanage holders who controlled Pertamina and the technocrats who sought to make the oil giant more efficient and accountable has been a feature of the New Order period. The technocrats gained the upper hand in their long struggle to make Ibnu Sutowo accountable when in 1975 Pertamina was found to have debts totalling $10.4 billion largely as a result of its forays into financing industrial projects. Although the technocrats managed to divest Pertamina of its industrial holdings, they then lost control in the late 1970s as oil prices soared. But the decline in oil prices in the early 1980s once again reversed the balance, because continued expropriation and wastage of its resources now posed a direct threat to the state's major source of revenue and the country's major source of foreign earnings. With far less ability to absorb the impact of inefficiency and corruption, Pertamina was also faced with the new difficulty of competing for East Asian markets with newly available Chinese crude oil. To this was added the need to realise the vast sums ploughed into the refineries by successfully selling oil products overseas in competition with Singaporean and Middle Eastern refineries and by providing low-cost products for the domestic market.

The government's response reflected the urgency of the situation. Between 1982 and 1983, the board of directors, dominated by the technocrats Subroto, Sumarlin, Prawiro, Habibie and Secretary of State Sudharmono, gradually restricted the financial autonomy of the president-director, Judo Sumbono, and imposed more stringent accountability. In April 1983 three task forces were appointed to examine marketing, refining and auditing (*FEER*, 5 July 1984). Finally, in June 1984, Judo Sumbono was replaced as president-director two years before his term expired (Jufri, 1984). Given his political connections it was a remarkable step but one strongly indicating that, in the current oil price crisis, the vested interests of politico-bureaucrats and the long-term viability of the oil sector are becoming increasingly incompatible and that President Suharto has been forced to move against the interests of the former.

Under Sumbono's successor, General Ramly, pressures to extend efficiency and accountability have been maintained, led by a bevy of international accounting firms engaged to overhaul Pertamina's accounting and auditing procedures. A remaining challenge, however, involves regularisation of marketing procedures

and channels. Under Sumbono several private oil traders had been given opportunities to market Pertamina crude allegedly sold to them at a discount as a means of bypassing OPEC minimum prices. To restore discipline, and hence Pertamina's strength in the marketplace, the ability of these companies to obtain and dump cheap Indonesian crudes, particularly in Japan, had to be halted. Given the political connections of some of them, this meant a very immediate test of the government's determination to regularise the oil industry (*FEER*, 19 July 1984 and 24 March 1985).

Perhaps the radical changes to customs and excise procedures embodied in Presidential Instruction No. 4 of 1985 (Inpres 4/85) most clearly illustrate the conflict between the interests of the politico-bureaucrats and structural pressures emanating from the economic crisis. Customs has been a department notorious for corruption, and the passage of goods through the godowns of the port of Tanjung Priok has long been an expensive and frustrating procedure. Jobs in the Department of Customs are renowned as lucrative posts. However, the persistence of corruption here has taken on a new dimension in the wake of the oil price crisis. As pointed out earlier it became essential for Indonesia to replace oil with non-oil exports. Unfortunately, Indonesian goods, despite low wages, were not low-cost goods. Part of the blame for this can be attributed to the high cost of moving imports and exports through the wharves in Indonesia (Sjahrir, 1985a). The centres of political power were sufficiently alarmed at the seriousness of the situation to adjudge the vested interests of the customs officials and their value as political clients less crucial than the threat their activities now posed to the economy as a whole. Finance Minister Radius Prawiro temporarily took charge of Customs, appointing a Swiss firm, Societe Generale de Surveillance, to handle inspections and assessments and transferring collection of import duties to foreign exchange banks (*FEER*, 25 April 1985). Whilst there is often a gap between policy and implementation, Inpres 4 has the potential to divest customs officials of significant autonomous power over the movement of goods, to remove the competitive edge of politically well-connected companies at the waterfront and to save importers what has been an estimated US$200 million in bribes each year (*FEER*, 25 April 1985)

Inpres 4 is a fascinating and significant development. It expresses the willingness of the state to sacrifice whole sections of the web of patronage and expropriation that constitute politico-bureaucratic power under the New Order where these interests pose fundamental threats to the broader economic fabric. The questions to be resolved over the next year or two are whether these reforms will prevail and how far into the heart of politico-bureaucrat power will the reformers be able to penetrate? Will the need for the development of a domestic tax base, for example, mean that similar regularising procedures will be introduced in the tax-collecting apparatus?

Resistance to Structural Change

One of the major concerns noted in World Bank reports has been the proliferation of protected high-cost industries which produce expensive goods for domestic consumers and prevent Indonesia competing in world markets. In particular, the reports have pointed to areas where negative value added is produced, i.e. sectors where it would be cheaper to import than to produce in Indonesia. This category includes much of the high-technology production under Habibie's control as well as the more-established ISI producers in automobiles, motorcycles, television and other electrical products, glass, tyres and various metal engineering products (Gray, 1982; World Bank, Indonesia, 1984a: 101; World Bank, Indonesia, 1985b: 66-71).

The 1984 report listed the following implicit subsidies to domestic producers:

Portland Cement	US$156.8 million
Colour TV	US$ 43.6 million
Kraft paper	US$ 1.8 million
Synthetic yarn	US$ 24.6 million
Steel billets	US$ 74.8 million

In the 1985 report, the World Bank added more examples to the list:

Motorcycles	Rp 53.2 billion
Cosmetics	Rp 67.1 billion
Motor vehicles	Rp 134.4 billion
Glass	Rp 37.5 billion
Sugar	Rp 137.6 billion

But opening these sectors to free international competition by removing quotas, protective tariffs and other constraints is no easy task. Many such industries, notably steel, petrochemicals, engineering and automobiles are the key elements in the long-term strategy to create a nationally integrated and industrially based economy. It is also precisely in the negative value added industries that so many of the major domestic business groups are located and flourish under the protection of politico-bureaucrats and within the monopoly positions made possible by these political patrons. Hence a fundamental assault on the policies of protection and the network of monopoly and privilege in these sectors would threaten the corporate base of social and economic power which the leaders of the New Order have built for themselves over the past twenty years. Further considerations not generally taken into account by the World Bank are that removal of subsidies and protection offers the prospect of widespread collapse amongst existing industries, and it is justified only by an abstract hope that these would be replaced by flourishing and competitive industries in largely unspecified sectors. There is, of course, no guarantee that any Indonesian industry would flourish in a free-market situation, making major deregulation a risk that can be taken neither by domestic capitalists (including the generals amongst their number) nor by Indonesian policymakers. These considerations are quite apart from the likely catastrophic effect on existing patterns of

employment and subcontracting, an effect that also has implications for political order.

World Bank recommendations included not only withdrawal from a protective trade regime but also the ending of discrimination between categories of investors at the corporate level. Despite some progress in tariff reduction, restrictions on certain categories of imports are actually being extended (World Bank, Indonesia, 1985b: 63). Requirements that foreign investors include a minimum of domestic equity remain intact, and the priority investment lists (DSP) continue to exclude foreign investors from a range of sectors, notably some of the still-lucrative import-substitution areas. Two fairly recent developments have, in fact, made further assaults upon free trade and equal treatment of domestic and foreign investors. The government's counter-purchase policy of 1982 (noted earlier) represented a technique to boost exports totally contrary to notions of comparative advantage and relying entirely upon the exercise of state power.

The state also took measures to ensure that domestic capital received a share of the substantial contracts for supply and construction generated by state project investments. The bulk of state project expenditure, it must be remembered, is comprised of imports. Under the requirements of Presidential Decision Keppres 14 and 14a of 1979 and 1980, Keppres 10 of 1980, and Keppres 29 and 30 of 1984, all state expenditures on projects in excess of Rp 500 million are scrutinised by a State Procurement Team under the authority of the State Secretariat and headed by Ginanjar Kartasasmita, Chairman of the Capital Investment Board and Junior Minister for the Promotion of the Use of Domestic Products. The provisions of the various Keppres require the State Procurement Team to give preference to domestic and indigenous producers for smaller orders and contracts (Daroesman, 1981: 15-16).

Whilst lauding free trade in principle, Ginanjar has explained the activities of the State Procurement Term as virtually an act of self-defence in the face of growing protectionist tendencies in world trade and the growing practice of dumping by multinational corporations. In any case, he noted, of the total of US$20 billion of projects processed by the team, US$413 billion were imported inputs (*FEER*, 10 May 1984: 72, 73). Of course, at a political level the Keppres 14, 14a and 10 give the State Procurement Board a strategic position at the interface between state and capital and therefore vest significant power in the State Secretariat, power that would be hard to wrest from it.

At another level the state appears determined to continue with the general thrust of investment policy towards the creation of capital and intermediate goods industries in contradiction to notions of comparative advantage. There are several concrete examples of the strength of this commitment, perhaps the most crucial being that of Krakatau Steel. Krakatau was begun in the early 1960s with Soviet assistance, revived by Sutowo in the early 1970s and completed in the late 1970s with a direct reduction plant, a billet plant and various downstream mills producing

wire rods, bars, sections and hot strip slabs (Arndt, 1975). Reportedly, Krakatau lost about Rp 250 billion between 1977 and 1980 and had invested US$3.79 billion by the end of its current programme of investment. Its liabilities to commercial banks had reached Rp 962 billion by the end of 1982 (*FEER*, 23 June 1983: 60-2).

In addition to pumping huge amounts of state money into the Krakatau complex, the state has moved to ensure Krakatau's position in the domestic steel market against potential competition from cheaper imports by giving Krakatau and other state trading companies the monopoly on the import of similar steel products. Consequently, the state is the sole importer of scrap, billets, wire rods, hot strip coils and sheets and is able to control th price and extent of these imports.

The most recent Krakatau initiative is a projected US$800 million cold rolling mill, a joint venture between Krakatau (40%), the Ciputra group (20%) and Liem Sioe Liong (40%). Equity participation will constitute 30 per cent of investment, whilst export credits and commercial loans will constitute the remaining 70 per cent. The participation of private investors is interesting, appearing to demonstrate the viability of the government's expectation that domestic private capital would play a much greater role in major investments in Repelita IV (the fourth five-year plan, 1984/85-1988/89). However, the movement of private capital, notably that of the Liem Sioe Liong group, into the notoriously inefficient steel industry must be understood in the broader context of Liem's corporate activities, which are heavily based upon government-conferred monopolies and special preferences (Robison, 1986: ch. 9). It would appear that the government agreed to minimise his risks by giving him the monopoly on the import of cold rolled steel products, thus enabling him to secure major profits on these imports before the mill began as well as control of prices in the domestic market afterwards (Hill, 1984a: 18).

Whilst Krakatau may be a millstone inherited by the government and one that it is politically difficult to unload, the government's decision to throw its resources behind the development of the strategic industries programme designed by the Agency for the Assessment and Application of Technology (BPPT), under Research and Technology Minister Habibie, is a new and calculated venture running contrary to both the notion of comparative advantage and the pressures for restructuring emerging from the realignment of the international division of labour. What is more remarkable, the development of strategic industries is being prosecuted in the face of the state's declining capacity to invest.

Habibie has consistently argued that the capacity to develop and produce technology is essential for successful industrialization. With the strong support of the president, he has established two major technology ventures in shipbuilding at Surabaya (PAL) and aircraft at Bandung (Nurtanio). In both cases large amounts of investment capital continue to be made available despite the large cutbacks announced in other industrial projects. Capital investment in Nurtanio is estimated by some sources to be US$250 million (Hill, 1984a: 20). Nurtanio manufactures aircraft (the CN 235) under licence to the Spanish company CASA, while PAL

manufactures various types of ships, from tankers to patrol boats and hydrofoils, in agreements with foreign manufacturers. Despite Habibie's claims that operations have so far been profitable there is significant doubt not only about the mechanics of his calculations but also about the long-term viability of the projects. Overseas sales have been disappointing, and have largely been confined to domestic purchases by the armed forces, the state-owned airlines and Pertamina (Hill 1984b:54, 55).

Perhaps the best recent illustration of how the state has sought to generate the development of its heavy and technological industries through policies of backwards and forwards linkages has been its strategy to reconstruct the shipping industry. To stimulate the shipbuilding industry the Department of Sea Communications, under the director-generalship of Habibie's brother, ordered the scrapping of all Indonesian-owned ships over thirty years old by May 1984 and ships over twenty-five years by January 1985. Further, it was required that the ships be scrapped in government-designated yards and sold to Krakatau Steel at fixed prices, considerably below the going international rate (*FEER*, 8 November 1984: 68). To replace these vessels, the companies were required to purchase Caraka Raya class vessels designed by BPPT, PAL (the state shipyard headed by Minister Habibie) and a Japanese partner—vessels built in Indonesian shipyards using Krakatau steel and other domestic inputs. The state shipyard, PAL, already building naval vessels and tankers for Pertamina, was expected to receive the bulk of the orders. Whilst shipbuilding is an attractive industry because of its labour-absorption potential and the linkages it offers, particularly with Krakatau, it is likely to produce expensive ships for the foreseeable future given the high costs of domestic inputs. Preliminary estimates include a price three to four times that of the most logical alternative replacements: used Japanese ships about three to seven years old. Foreign observers also doubt the technical and managerial capacities of the Indonesians in this field (*FEER*, 8 November 1984: 70).

Both the ship and aircraft industries are examples of the government's continuing preparedness to intervene in the marketplace through regulation and direct investment, to create a domestic industrial network in the face of market forces. It is continuing evidence that the political leaders of the New Order remain committed to the creation of an integrated industrial base and their continued scepticism of the long-term benefits of free market and comparative advantage policies urged by the World Bank.

A further example of the operation of this sort of industrial policy is the automobile industry. This industry had long been based around the sole agency-a monopoly to import particular automobile makes—in effect allocated by the government to well-connected corporate groups through the Ministry of Industry. Under Sukarno, such businessmen as Hashim Ning, Dasaad, Panggabean and Surwarma and the state company, Gaya, held import assembly licences. With the rise of the New Order, new monopoly-holders were to include Sutowo, Wahab

Affan, Willem Soerjadjaja, Liem Sioe Liong and Probosutejo, the president's brother (Robison, 1986: Ch. 3). But the government began a programme in the 1970s to move beyond import and assembly to local content manufacture. Higher local content requirements combined with quotas and tariffs gave rise to a greater degree of local manufacture as well as a thriving domestic components industry. In 1982 the government had consolidated and rationalised the industry by reducing the number of participating firms and requiring that the major groups move into engine manufacture. Six new engine plants are being established involving Toyota, Daihatsu, Mitsubishi, Isuzu, Daimler Benz, Sumitomo and their local partners (*ICN*, 14 September 1981 and 10 January 1983). It is a move that has been seen by most foreign observers as likely to produce yet another high-cost, and eventually, state-subsidised industry (Gray, 1982; Hill, 1984a) and by at least one of the Indonesian businessmen involved as not being the preferred commercial choice at this stage (Astbury, 1982: 21).

Long-term Prospects for Resistance to Structural Change

Despite enforced moves to develop domestic revenue sources, to cut back on public project investment and to begin a drive for efficiency and regular practices in some state corporations and departments, the Indonesian government has not yet been forced to surrender fundamental principles of economic nationalism or to dismantle the basic structure of politico-bureaucratic power. Economic strategy remains geared to creating a nationally integrated, industrially based economy rather than an economy structurally responsive to capital investment flows and division of labour operating at the international level. The state still occupies the commanding heights of the economy both as an investor and as a regulator. Within the state corporations the politico-bureaucrats continue to exercise ultimate authority, channelling state capital relationships through themselves and the holders of appropriated state power.

In the long term, however, the capacity to avoid further and more fundamental change depends upon the future course of the oil market and the success of measures already introduced to alleviate the impact of oil price declines. This throws the spotlight on the effectiveness of such measures as Inpres 4/85, the drive to develop manufactured exports, the drive to develop a domestic tax base and to develop sources of domestic investment capital to supplement state investment.

The Question of Export Earnings

After the dramatic slump in oil production and foreign exchange earnings in 1982/83 (discussed earlier), the trajectory of the decline, in real dollar terms, levelled off and was expected by the World Bank report of 1985 and Indonesian government sources to climb slowly again in the late 1980s and early 1990s (World Bank, 1985b: 33-9). Nevertheless, the relative position of oil as a foreign exchange earner was not expected to regain the dominance it held in the 1970s. Total production would

flatten out, the domestic market would soak up an increasing amount of the production, while competition from the new Chinese crude for the Asian markets would place further pressure on sellers. It is already reported that Japan has cut back purchases of Indonesian oil, forcing Indonesia to become even more active in the spot oil market, selling at prices lower than those on which income projections were calculated (*FEER*, 8 August 1985: 44, 45). In early 1986 the breakdown of OPEC pricing policies precipitated a further dramatic decline in the price of oil from about $28 per barrel to as low as $12 per barrel. The consequences of this are so devastating that they throw into disarray calculations and predictions made to this date and which, in the case of the World Bank, were based on a steady recovery in oil prices.

The drop in oil earnings from $16.4 to $12.2 billion in 1982/83 left a massive $7 billion current account deficit. Further damage was minimised by a significant rise of 37 per cent in non-oil exports in 1983/84 including an 80 per cent increase in manufactured exports (Table 2.3). Rises in non-oil exports continued in 1984/85, including 15 per cent in manufactures. Total non-oil exports rose from 18 per cent of total exports in 1982 to 27 per cent in 1984. The balance of payments situation was also helped considerably by an 18 per cent decline in imports in 1983/84 and 1984/85 due to the government's project rephasing, failure to implement planned expenditures, increased restrictions on imports and strong performances in the agricultural sector (McCawley, 1985: 11-12; World Bank, 1985b: 20-1, 50-2).

As a consequence, the current account deficit was reduced to $4.2 billion in 1983/84 and $1.9 billion in 1984/85. Net foreign assets were expected to increase to $9.9 billion. Projections of recovery beyond the mid-1980s were heavily predicated upon expected increases in the value of manufactured exports at the rate of 100 per cent for the period 1984/85 to 1988/89 and a further 200 per cent between 1988/89 and 1995/96 to $11 billion, or 20 per cent of total export value (World Bank, Indonesia, 1985b: 173-5).

Yet there are serious doubts about the future of Indonesia as an exporter of manufactures. In must be remembered that manufactures still comprise just 8 per cent of the total value of exports (US$1.65 billion) while manufacturing contributed only 15 per cent of GDP in 1983, well below Thailand (21%) and Malaysia (18%) (Hill, 1984a: 8). Much of the growth in non-oil exports in 1984/85 came from a $900 million surge in LNG, while manufactured exports have been dominated by the growth of plywood production (Table 2.3). The value of textile exports increased from $180 million in 1982/83 to $500 million in 1984/85 but these have now reached the level where they are beginning to encounter protectionist barriers (McCawley, 1985: 12; World Bank, 1985b: 18, 52).

Despite low wage-labour costs the exported manufactures from Indonesia find difficulty in competing on the international markets because total production costs are generally higher than their competitors. This is due to a combination of factors, among them a low capital output ratio, poor infrastructure, wastage and the depredations of politico-bureaucrats and minor officials. As the urgency for non-oil

exports has increased, so has the debate on Indonesia's high-cost economy come to the fore. In June 1985 the issue was first systematically and publicly debated in *Sinar Harapan* (24, 25 and 26 June 1985), but the most forceful attack came from Professor Sumitro, former minister in various economic portfolios in the 1950s, the late 1960s and early 1970s and architect of much of Indonesia's thinking on industrial strategy. In an address reported in *Kompas* (23 and 24 August 1985) he argued that import tariffs, import quotas and controls on investment, applied in an ad hoc and arbitrary manner, were creating and propping up inefficient, high-cost industries and preventing innovation and movement into areas where a more defined comparative advantage existed. Not only did this result in failure to compete on international markets, Sumitro argued, but it resulted in a saturation of the domestic market with expensive goods, effectively depressing real income levels.

However, the move out of the "high-cost economy" from ISI to EOI is not a simple matter. It does not simply involve better management and production organisation, the development of infrastructure and the more effective application of technology, as difficult as that may be. It means nothing less than fundamental changes to the economic base of political and corporate power and a major challenge to the prevailing nationalist ideologies and strategies which underpin such power.

To begin with, as a consequence of decades of nationalist economic policies, the bulk of investment in manufacturing, both state and private, is located in sectors where there is little chance for export competitiveness: steel, petrochemicals, automobiles, shipbuilding, TVs, tyres, cement and glass, indeed in the very areas identified by the World Bank as being the worst examples of negative value added production. These industries were never intended to produce export goods but, rather, to form the core of an integrated national industrial economy. This commitment continues to be the central theme in economic strategy. The government's major economic spokesmen, including Habibie, Ginanjar and Hartato, defended the long-term efficacy of protectionist strategies, citing the example of South Korea and Meiji Japan as countries that successfully used protectionist policies as an instrument for industrialization. They also criticised the notion that free-trade policies would lead to a more efficient Indonesian export sector or, indeed, would result in anything but the obliteration of Indonesian industry at the hands of international cartels of state and private corporate capital dumping goods in the Indonesian market (*FEER*, 10 May 1984: 72, 73; *Kompas*, 24 August 1985).

The arguments are, so far as they go, powerful ones. The "free market" and "free trade" are utopian abstractions at the best of times, and successful exporting has been quite demonstrably related to the international collusion of state and capital in a way that certainly does not approximate the free-market, free-trade ideals of neo-classical economists. But none of this answers the immediate problem of Indonesia: to rapidly generate large foreign earnings from the export of manufactured goods.

Theoretically there is no reason why international competitiveness in particular

industries cannot be nurtured behind walls of tariff protection. Comparative advantage is not an enduring natural phenomenon; it is the creation of people, as the Japanese have so clearly demonstrated in the steel industry, in shipbuilding and more recently in computers. This is precisely the case argued by Ginanjar and others. But the critics are asking how long this process takes (*Kompas*, 9 April 1985). In the case of Indonesia, there is little evidence to suggest that progress is being made behind the protective walls to produce efficient competitive industries able to storm the markets of the world let alone compete with foreign products in the domestic market. Protection has tended to be regarded and used as a permanent structural feature and not a temporary policy expedient.

Nevertheless, policy continues to reinforce and perpetuate inward-looking industries. As described earlier, various types of tariff protection and import monopolies protect Krakatau Steel, Pertamina and other state corporations, as well as a whole variety of private corporations involved in capital and consumer goods production, from import competition. Despite the government's announced tariff reductions in March 1985, it continues to give strong protection to a variety of industries, perhaps best illustrated by its attempts to build an integrated automobile industry in Indonesia through import controls and deletion programmes (*FEER*, 8 December 1983: 82, 83; *ICN*, 14 September 1981, 10 January 1983; World Bank, 1985b: 63).

The continuation of such policies is not simply the consequence of an ideological attachment to economic nationalism. Both the state and private domestic capital in Indonesia are also committed to maintaining the ISI structures simply because this is where bulk of the assets, the investments and property is located. Enormous corporate entities, both state and private, have been constructed within the framework of protectionist policies and political patronage, the termination of which would threaten the whole edifice of capital ownership. Nor is it a simple matter to shift direction. Moving out of the ISI sector would be feasible only if existing assets could be realised and reinvested in new export-oriented industries. But in a catch-22 situation, cement plants or automobile factories would be worth little on the Indonesian market without a long-term guaranteed framework of protectionist policies.

As a result, the bulk of the manufacturing sector in Indonesia is not only located in the ISI sector but is locked there. Moreover, those with interests vested in ISI are politically well able to resist pressures for their demise because they are not simply an isolated and politically weak national bourgeoisie but are comprised of officials and their clients, a crucial and constituent element in that fusion of political, bureaucratic and economic power that dominates Indonesia under the New Order. State corporate managers preside over corporations that are not only instruments of economic nationalist policy but have been major terminals of revenue, influence and patronage for politico-bureaucrat power-holders. Private capitalists have constructed corporate empires upon monopolies and concessions provided by

political patrons, who increasingly are integrated with their corporate clients as shareholders or directors. Consequently, state protection and intervention represent the exercise of state power by politico-bureaucrats to secure their own financial interests as politico-bureaucrats, state managers of capital and private capitalists. It is these linkages, between particular centres of power and individual companies rather than simply between state and capital, that reinforce the influence of ISI capitalists and give rise to the patterns of arbitrary and ad hoc application of protection referred to by Sumitro.

The high cost of production in Indonesia is also a consequence of the particular nature of the relationship between politico-bureaucrats, the state apparatus and capital. The maze of regulations which govern the operation of capital in Indonesia are a mechanism by which politico-bureaucrats, as appropriators of state power, are able to extract extra-legal payments from companies or ensure a privileged position for their own or their clients' companies. Naturally these impose a high cost in extra-legal payments, free equity and directorships and in uncertainty and unpredictability. But to deregulate, to simplify the labyrinth of import and export licences, exploitation concessions, procedures for government contracts and investment would remove a set of strictures and mechanisms through which politico-bureaucrats exercise their economic and political domination. Such a set of relationships would find an open-door EOI system a much less fertile environment.

Consequently the dispute between the domestic critics of protectionist policies and the high-cost economy and their defenders is very much a political one. But whilst it is a political one, it is not one the critics are able to win politically because they, as mainly technocrats and researchers, do not have an independent power base. Their influence derives from their function as economic managers, but their authority is held at the discretion of the politico-bureaucrat powerholders. They exist to manage an economic structure in which, as the "bottom line," the interests of the politico-bureaucrats and their corporate clients must be guaranteed. Their capacity to erode some of these structures becomes effective only at times when broader fiscal and economic crises force compromises and adjustments. This is not to suggest that all technocrats are advocates of open-door, free-market policies. Whilst this has tended to be true of those associated with the National Economic Planning Board (Bappenas) and the University of Indonesia, a powerful technocrat lobby group centred in the State Secretariat and the Ministry of Research and Technology are propagators of integrated national industrialization strategies.

The key to any switch to export promotion strategies lies, therefore, in the direction of new investments into this sector. With manufacturers facing difficulties in a saturated market and the state no longer able to provide guarantees of lucrative profits through subsidies and monopolies, there are certainly pressures to restructure, but whether the liquid assets are there to respond to these pressures and whether they would necessarily be invested in Indonesia is doubtful. The problem of investment will be discussed in the next section.

The Revenue Crisis of the State

Declines in oil revenues in 1981/82 and 1982/83 led to a budget deficit of Rp 3882 billion (almost Rp 3.9 trillion) in 1983/84 and an expected Rp 4.4 billion in 1984/85. Together with appropriate foreign borrowing, the deficits have been kept under control due largely to an increase in LNG revenues, an increase of 12 per cent in non-oil revenues, further reductions in subsidies and government investments and failure to implement projected investments (Tables 2.4 and 2.5). The success achieved in fiscal management so far and the basis of projections for long-term rehabilitation of the revenue situation are heavily reliant on three factors: the development of non-oil domestic taxes, the increased role of overseas loans and restraint in government expenditure. This whole process now becomes at once more urgent and more difficult in the wake of the dramatic second round of oil price collapses in 1986.

The 1985/86 budget projects a decline of oil and LNG revenues from Rp 12.4 trillion to Rp 11.2 trillion but an overall rise in total revenue from Rp 17.9 trillion to Rp 18.7 trillion to come from a nominal 36 per cent increase in non-oil revenues, a third of which is to be generated by new value-added tax. Rp 777 billion is expected to be collected from taxes on domestic manufacture. Individual and corporate taxes are also expected to rise 40 per cent (World Bank, 1985b: 16). This places a great deal of reliance on the immediate effectiveness of the VAT programme and the buoyancy of hard-pressed domestic manufacturers. This is not to say that businesses and individuals did not pay taxes before; they did, but largely to the politico-bureaucrats through extra-legal arrangements. The problem now is that the state needs these taxes. This therefore requires the creation of a modern, efficient and regularised tax collection service: a further erosion of politico-bureaucrat power and a further example of the contradictions inherent in the policy options forced upon the New Order.

A second element in the government's revenues strategy has been the increased importance of foreign loans. Revenue from this source has increased from 12.3 per cent of total revenue in 1981/82 to 21.2 per cent in 1983/84 (Table 2.5). The World Bank expected that over the next three years Indonesia would require gross annual disbursements of medium- and long-term loans of US$5.5 billion (World Bank, 1985b: 54). Even before the second round of oil price collapses, disbursed and outstanding medium- and long-term debt was expected to rise from US$19.5 billion in 1981 and US$28.4 billion in 1984 to an estimated US$46 billion in 1990, with a debt service ratio of 23.8 per cent (World Bank, 1985b: 59). This in itself is not a dangerous situation and, given existing circumstances, the foreign borrowing programme does not threaten for Indonesia the same sort of fate that has befallen Brazil, Mexico, Argentina or Poland. Nevertheless foreign loans are a limited long-term solution because aid receipts are increasingly disbursed in debt servicing. McCawley estimated that in Indonesia foreign aid receipts net of repayments would begin to fall rapidly in 1985/86; foreign debt repayments would rise 32 per cent in

1985/86 from Rp 2.7 billion to Rp 3.6 billion, while net receipts would fall from Rp 1.7 trillion in 1984/85 to Rp 0.8 trillion in 1985/86 (McCawley, 1985: 18).

The third major element of fiscal policy aimed at controlling the deficit has been restraint in government expenditure. Initially the government attempted to contain this within the routine budget, focusing upon the reduction of subsidies. However, as mentioned earlier, the government was forced to make substantial cuts in its programme of investments in major resource and industrial projects. Given that the state is the major source of investment funds, the pressure upon the government to reduce expenditure has crucial implications for the level of capital expenditure in the economy as a whole. Indeed, gross domestic investment fell from 23.6 per cent of GNP in 1983, to an expected 21.8 per cent in 1984, and was projected in the World Bank report of 1985 to fall further in 1985/86 to 19.9 per cent before, hopefully, recovering. Gross domestic investment derived from government savings was expected to decline from a projected 9.8 per cent of GNP in 1984 to 7.2 per cent in 1985 and 1986 before once more rising (World Bank, 1985b: 41). Direct government investment and public-enterprise investment fell from Rp 8366 billion in 1982/83 to Rp 7412 billion in 1983/84, a 17 per cent decline in real terms (Table 2.6). The decline in government investment is even more precipitous if we consider productive investment as separate from investment in economic infrastructure and social services (Table 2.8).

The effect of planned changes in the sectoral composition of government development expenditure for Repelita IV will be to shift emphasis sharply away from the productive sector towards infrastructure and the social sector. Quite clearly the pattern is designed to transfer responsibility for productive investment increasingly to the private sector.

Nevertheless, in Repelita IV, the government is planning for increases in total investment from Rp 19 trillion in 1984/85 to Rp 40 trillion in 1988/89. This will require sustained and substantial increases in private investment from a planned Rp 8.7 trillion in 1984/85 to Rp 19.5 trillion in 1988/89, a growth rate of 20 per cent year over the period. Of the total Rp 145.2 trillion of investment projected for Repelita IV, Rp 67.5 trillion, or 40 per cent, is therefore expected to come from the private sector (*FEER*, 26 January 1984; *Tempo*, 25 February and 31 March 1984). Domestic, non-government savings are also assumed, as part of the plan, to rise by an incredible 32 per cent annum.

So far the government's expectations of the private sector have not been met. Direct private foreign investment continues to be sluggish. From a high of US$538 million of investment capital in 1974/75 it fell to US$140 million in 1980/81, then reached US$193 million in 1983/84. It is projected to rise to US$479 million by the mid-1990s. However, it is clear that foreign private investment will not come flooding back into Indonesia until it is able to invest in sectors it considers appropriate—i.e. until the priority investment lists (DSP) are withdrawn—and until

a greater degree of reliability and predictability are introduced into the physical and administrative infrastructure.

Domestic investment has also performed poorly. It has been hampered by slackening domestic demand (due in no small measure to declining state investment in the industrial projects), overcapacity, the uncertainty of new taxes and, most importantly, huge debt servicing burdens for those who borrowed heavily in US dollars during the oil boom, as a consequence of devaluation and the continuing strength of the dollar. Early data suggest that the hopeful targets set for the private sector are not being met. In the first six months of Repelita IV, the Capital Investment Board (BKPM) reported only Rp 923 billion of an anticipated Rp 3.9 trillion had been invested (*FEER*, 27 September 1984; World Bank, 1985b: 4-5).

In one extremely important case it has transpired that, rather than private capital coming to the rescue of the government at a time of fiscal difficulty, private capital has fallen into an even deeper hole and it has been the government that has had to do the rescuing. I refer here to the government's celebrated purchase of shares in Liem Sioe Liong's Indocement group.

If any domestic, private corporate group had the potential to play a leading role in the privatisation of investment it was the Liem group. By far the largest of the private corporate conglomerates, the Liem group enjoyed close relations with the Suharto family, many of its companies having Suharto family members as shareholders and directors. Between 1965 and 1975 it secured dominant, often monopoly, positions in trade (notably clove importing), flour milling, cement manufacture and automobiles with generous access to licences and state credit. Most recently Liem expanded into the milk and cooking oil industries, assuming almost a monopoly position in the latter. In the early 1980s he completed several spectacular takeovers in trade and banking in Holland, the USA and Hong Kong (*FEER*, 7 April 1983 and 26 April 1984; *Tempo*, 31 March 1984; Robison, 1986: ch. 9). His rise to international status was followed in Indonesia by a series of moves which suggested he was to be the spearhead of privatisation. His joint venture with Krakatau and Ciputra in the cold rolling mill has already been discussed. After the government's decision to privatise several public corporations, Liem made a highly publicised takeover of Semen Madura. However, from this point things seemed to turn sour; Liem's huge Indocement group, with a capacity to produce 8 million tons of the country's total capacity of 12.3 million tons in 1985, confronted serious difficulties in the form of a slack domestic market and soaring servicing burdens on its overseas borrowing. It was at this stage that the state stepped in to rescue the flower of Indonesian private enterprise.

Under Regulation 32 of 25 June 1985, the government purchased a total of 35 per cent of the shares of Indocement at a cost of Rp 36,333,840,000 (about US$350 million). Indocement was also to receive a government loan of US$120 million from four state banks. In effect, the state is paying off Indocement's expensive dollar debts and replacing them with rupiah debts at, reportedly, favourable rates of

interest (*Kompas*, 14 August 1985; *Sinar Harapan*, 22 August 1985).

At one level the Indocement case might be seen to constitute nothing more than the use of state power and resources to rescue an ailing investment of the Suharto family. Of course it must also be said that states in general are loath at allow the demise of major national corporate groups whatever their relationship to powerful political leaders because of the broader economic implications of collapse especially for international business confidence.

At another level it demonstrates the dependence of major domestic business conglomerates on the resources of the state applied through both general policy and bureaucratic patronage. Contrary to the belief of free-market ideologues, domestic private capital is sustained by state intervention. Private capitalists are all too aware of this fact, and several have spoken out recently against the clamours for the removal of protection. In particular, we should note the pleas of Fritz Eman, a prominent businessman and member of the Chamber of Commerce, who not only argued vehemently against free-market policies but urged the government to extend to other companies the type of assistance it gave to Indocement (*Kompas*, 14 August 1985).

As the capacity of the state to finance, subsidise and provide markets to private domestic capital declines, along with its capacity to guarantee profitability to certain companies through allocating of monopolies and privileged market positions, so has private investment become increasingly cautious. If indeed domestic private capital is not able to fulfil the optimistic targets set for it in Repelita IV, Indonesia will either have to settle for lower investment and growth rates or make some more fundamental adjustments to its investment policy to attract foreign direct investment.

The Impact of the Oil Price Collapses of January-February 1986

The 1986/87 budget was introduced by President Suharto in January 1986 before the latest oil price shocks had occurred. Even at this stage the budget, based upon what transpired to be an optimistic forecast of US$25 per barrel, was 7 per cent down on 1985/86, the first decline under the New Order. The development budget declined a substantial 22 per cent, with serious implications for investment, GDP growth and employment. Despite falling imports, the government predicted a current account deficit of US$2.2 billion (Glassburner, 1986).

However, oil price declines proved to be far in excess of predictions. US$15-20 appears to be a more reasonable medium- to long-term prospect than the expected US$25. As Glassburner has noted: "Each drop of $1 in the average price of Indonesia's exported oil implies a loss of roughly $400 million in export earnings and Rp 300 billion in oil tax revenues; thus export earnings and tax receipts for the new fiscal year (1986/87) could decline by 25% or more as compared to the 1985/86 budget." (Glassburner, 1986: 1).

It will be some time before the precise impact becomes clear, but what is certain

is that the pressures that emerged from the 1982 price decline from $36 to $28 per barrel will be intensified. Balance of payments problems and foreign debt will increase, and even the 1986/87 budget debt servicing was expected to rise to US$1.77 billion, up from US$1.29 billion in 1984/85. The state's revenue crisis will deepen, forcing either further spending cutbacks with their depressing effect on growth and employment, or expansionary policies with growing budget deficits and inflation. Increasingly the business community is becoming aware that pressures to resort to the hard choices—spending cutbacks, devaluation, deficit budgeting and increased foreign borrowing—could be lessened if the state apparatus was made more efficient. Their increasingly vocal stance on the issue of efficiency will further erode the hegemony that officials exercise over the state apparatus.

Concluding Remarks

As outlined in the introductory chapter of this collection, new factors in the process of production have made it both desirable and possible for international capital to decompose the process of production globally according to corporate criteria of efficiency and profitability. This has involved the relocation of many labour- and energy-intensive manufacturing industries to the Third World (Adam, 1972; Frobel, 1982; Jenkins, 1984). At the ideological level, this new international division of labour is explained and justified by its proponents, corporate and academic, as a rationalisation of the world economy: an application of the principles of comparative advantage and allocative efficiency. Export-oriented economies such as those of Singapore and South Korea are held to be illustrations of the benefits to be gained by integrating with the new international division of labour, by switching from inward-looking to export-oriented industrial policies (Keesing, 1967; Garnaut, 1980; Balassa, 1982).

Indonesia's policies over the past four decades generally run counter to the objectives of both international investors and free-market economists. By restraining international capital investment and internally financing investment projects in all sectors of the manufacturing industry the Indonesians have attempted to create an autonomous industrially based economy outside the logic of the new international division of labour. However, over the past five years the capacity of the Indonesian state to resist absorption into the new international division of labour has been diminished by severe falls in the prices of its main export earner: oil.

With the fall in oil prices, international pressures for Indonesia to abandon its nationalist economic policies, to abandon ISI for EOI policies, have gained real force. Whereas the oil bonanza allowed for general economic growth *and* the sustenance of politico-bureaucrats and their capitalist clients, the decline in oil prices has meant that the vested interests of the entrenched political and economic forces run increasingly counter to the viability of the economy as a whole. As well, the leverage available to international forces has grown with Indonesia's increasing need for external sources of loans and investment capital. But resistance to structural

strength of nationalist feelings, from distrust of international capital, and from the belief that submission to NIDL and abandonment of the state's protective and supportive role for the domestic economy would destroy existing structures and enterprises and leave the economy vulnerable to international cartels, monopolies and manipulative trade practices.

At a more concrete level, resistance has come from the dominant political and domestic corporate groups whose interests are integral to policies of state intervention and economic nationalism. To keep the nationalist state-led economy intact in the face of falling oil prices the government has been forced to seek alternative sources of foreign earnings and revenues. To the end of 1985 it had achieved remarkable success in avoiding a revenue and balance of payments crisis. But to achieve this it has had to adopt policies which, ironically, are corrosive to the continuation of politico-bureaucrat hegemony over the state and the pursuit of a nationally integrated industrial economy. The further Indonesia is forced to borrow externally, to increase productivity and efficiency of industrial production, to develop a domestic tax base, to expand domestic private sources of investment capital and savings and to restrain state expenditure, the more it weakens the position of the vested interests, the hegemony of politico-bureaucrats over the state apparatus and the integrity of the nationally conceived economy.

The outcome is not likely to be confined to either integration into the new international division of labour as an export-oriented producer or successful defence of the integrated, inward-looking industrial model. Entry into the new international division of labour is not simply a matter of adopting different policies. A complex range of specific economic and political factors underlay the successful entry of South Korea, Taiwan and Singapore in the 1960s and 1970s, as explained in the introduction to this collection. Further, there is also the question of the level at which countries would participate. Certainly Indonesia could not expect to keep its automobile or steel industries. With the accelerated decline of oil income and the weakness of domestic capital, Indonesia may prove to have too little to offer investors to enable it to play a significant role in the new international division of labour and too little in the way of independent resources to underwrite autonomous industrialization. In other words, economic stagnation is a real possibility. Whatever the case, the outcome will be determined not only by pressures emanating from structural changes in capital accumulation at the global level but also by development of economic forces within Indonesia and the process of political conflict between vested interests in response to threats and opportunities posed by structural change.

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Table 2.1 Indonesia's gross domestic product by industrial origin at current market prices, 1967-83, in Rp billion (and as a percentage of GDP)

	1967	*1968*	*1969*	*1970*	*1971*[a]	*1972*	*1973*	*1974*	*1975*	*1976*	*1977*	*1978*	*1979*	*1980*	*1981*	*1982*	*1983*
Agriculture	457	1069	1339	1575	1646	1837	2710	3497	4003	4812	5906	6706	8996	11290	13643	15668	18772
	(53.9)	(51.0)	(49.3)	(47.2)	(44.8)	(40.2)	(40.1)	(32.7)	(31.7)	(31.1)	(31.0)	(29.5)	(28.1)	(24.8)	(25.3)	(26.3)	(26.4)
Mining	23	87	129	173	294	491	831	2374	2485	2930	3600	4358	6980	11673	12971	11700	13824
(including oil)	(2.7)	(4.1)	(4.7)	(5.2)	(8.0)	(10.8)	(12.3)	(22.2)	(19.7)	(18.9)	(18.9)	(19.2)	(21.8)	(25.7)	(24.0)	(19.6)	(19.4)
Manufacturing	62	179	251	312	307	448	650	890	1124	1453	1817	2420	3311	5288	5822	7681	8918
	(7.3)	(8.6)	(9.2)	(9.3)	(8.4)	(9.8)	(9.6)	(8.3)	(8.9)	(9.4)	(9.5)	(10.6)	(10.3)	(11.6)	(10.8)	(12.9)	(12.5)
Electricity, gas	3	9	13	15	18	20	30	52	70	98	106	118	149	225	288	380	503
and water	(0.4)	(0.4)	(0.5)	(0.4)	(0.5)	(0.4)	(0.4)	(0.5)	(0.6)	(0.6)	(0.6)	(0.5)	(0.5)	(0.5)	(0.5)	(0.6)	(0.7)
Construction	14	45	75	100	128	174	262	406	590	813	1023	1242	1790	2524	3118	3507	4434
	(1.6)	(2.1)	(2.8)	(3.0)	(3.5)	(3.8)	(3.9)	(3.8)	(4.7)	(5.3)	(5.4)	(5.5)	(5.6)	(5.6)	(5.8)	(5.9)	(6.2)
Transport and	19	57	77	96	162	182	257	442	521	663	843	1032	1422	1965	2352	2795	3325
communication	(2.2)	(2.7)	(2.8)	(2.9)	(4.4)	(4.0)	(3.8)	(4.1)	(4.1)	(4.3)	(4.4)	(4.5)	(4.4)	(4.3)	(4.4)	(4.7)	(4.7)
Banking	4	12	22	33	45	53	83	113	151	207	236	396	655	752	1404	1604	1841
	(0.5)	(0.6)	(0.8)	(1.0)	(1.2)	(1.1)	(1.2)	(1.1)	(1.2)	(1.4)	(1.2)	(1.7)	(2.1)	(1.7)	(2.6)	(2.7)	(2.6)
Other services	266	639	812	1036	1072	1359	1930	2934	3699	4491	5502	6474	8722	11729	14429	16290	19598
	(31.4)	(30.5)	(29.9)	(31.0)	(29.2)	(29.8)	(28.6)	(27.4)	(29.3)	(29.0)	(28.9)	(28.5)	(27.2)	(25.8)	(26.7)	(27.3)	(27.5)
Gross domestic	848	2097	2718	3340	3672	4564	6753	10708	12643	15467	19033	22746	32025	45446	54027	59633	71215
product	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)

Source: Adapted from World Bank (1985b) citing BPS data.

Table 2.2 Indonesia's balance of payments, 1973/74-1983/84, in US$ million

	1973/74	*1974/75*	*1975/76*	*1976/77*	*1977/78*	*1978/79*	*1979/80*	*1980/81*	*1981/82*	*1982/83*	*1983/84*
1. Net oil	641	2638	3138	3710	4352	3785	6308	9345	8379	5788	6016
2. Net LNG	—	—	—	—	93	225	667	1256	1382	1378	1355
3. Non-oil (net)	-1397	-2776	-3992	-4512	-5135	-5165	-4777	-8470	-12551	-14205	-11522
Exports (f.o.b.)	1905	2033	1873	2863	3507	3979	6171	5587	4170	3928	5367
Imports (c.i.f.)	-2938	-4341	-5090	-6167	-7241	-7543	-9028	-11837	-14561	-15824	-14346
Services (non-freight)	-364	-468	-755	-1208	-1401	-1601	-1920	-2220	-2160	-2309	-2543
4. Current account (1+2+3)	-756	-138	-854	-802	-690	-1155	-2198	-2131	-2790	-7039	-4151
5. SDRS	—	—	—	—	—	64	65	62	—	—	—
6. Official capital (aid +loans)	643	660	1995	1823	2106	2101	2690	2684	3521	5011	5793
7. Official debt repayment (principal)	-81	-89	-77	-166	-761	-632	-692	-615	-809	-926	-1010
8. Miscellaneous capital	549	-131	-1075	38	176	392	-1315	-361	1140	1795	1191
Direct investment	331	538	454	287	285	271	217	140	142	311	193
Others	218	-669	-1529	-249	-109	121	-1523	-501	998	1484	998
9. Total (4 through 8)	355	302	-11	893	831	770	2946	3901	1062	-1159	1823

Source: Adapted from World Bank (1985b) p. 192, citing Bank Indonesia data.

Table 2.3 Indonesia's exports by commodity 1975/76-1995/96, in US$ million (and as a percentage of total exports)

	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1988/89	1990/91	1995/96
	Actual									*Est.*			*Projected*		
Export values at current prices															
Agriculture	1472	2347	2898	3199	5115	4273	2590	2398	3083	3229	3257	3709	4711	5950	10373
(% of total exports)	(20.2)	(25.5)	(26.7)	(28.1)	(27.6)	(18.7)	(11.3)	(12.8)	(15.6)	(16.0)	(15.7)	(16.2)	(16.0)	(16.4)	(18.1)
Metals and minerals	257	320	363	437	609	774	718	676	801	1023	1124	1207	1436	1676	2530
(% of total exports)	(3.5)	(3.5)	(3.3)	(3.8)	(3.3)	(3.4)	(3.1)	(3.6)	(4.0)	(5.1)	(5.4)	(5.3)	(4.9)	(4.6)	(4.4)
Manufactures															
-Plywood	—	—	—	—	—	—	199	324	579	660	732	842	1135	1705	4098
-Others	144	196	245	360	447	540	666	530	905	989	1403	1598	2151	3058	6886
-Subtotal manufactures	144	196	245	360	447	540	865	854	1484	1649	2135	2440	3286	4763	10984
(%of total exports)	(2.0)	(2.1)	(2.3)	(3.2)	(2.4)	(2.3)	(3.7)	(4.6)	(7.5)	(8.1)	(10.3)	(10.7)	(11.1)	(13.1)	(19.1)
Total non-oil exports	1873	2863	3506	3996	6171	5587	4173	3928	5368	5901	6516	7356	9433	12389	23887
(% of total exports)	(25.7)	(31.1)	(32.3)	(35.1)	(33.3)	(24.4)	(18.1)	(21.0)	(27.1)	(29.2)	(31.4)	(32.2)	(32.0)	(34.2)	(41.6)
Oil and products	5410	6350	7192	6858	10995	15187	16482	12283	12050	11051	10714	11769	15023	17752	22808
LNG	—	—	162	516	1345	2111	2343	2461	2399	3290	3539	3743	4997	6096	10762
Total oil and LNG	5410	6350	7354	7374	12340	17298	18825	14744	14449	14341	14253	15512	20020	23848	33570
(% of total exports)	(74.3)	(68.9)	(67.7)	(64.9)	(66.6)	(75.6)	(81.9)	(79.0)	(72.9)	(70.8)	(68.6)	(67.8)	(68.0)	(65.8)	(58.4)
Total exports	7283	9213	10860	11370	18511	22885	22998	18672	19817	20242	20769	22868	29453	36237	57457
	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)

Source: Adapted from World Bank (1985) citing Ministry of Finance data.

Table 2.4 Indonesia's central government budget summary, 1973/74-1985/86, in Rp billion

	Actual							*Budget*					
	1973/74	*1974/75*	*1975/76*	*1976/77*	*1977/78*	*1978/79*	*1979/80*	*1980/81*	*1981/82*	*1982/83*	*1983/84*	*1984/85*	*1985/86*
1. Domestic revenue	967.7	1753.7	2241.9	2906.0	3534.4	4266.1	6696.8	10227.0	12212.6	12418.3	14432.7	16149.4	18677.9
2. Routine expenditures[a]	713.3	1016.1	1332.6	1629.8	2148.9	2743.7	4061.8	5800.0	6977.6	6996.3	8411.8	10101.1	12399.0
3. Government saving (1-2)	254.4	737.6	909.3	1276.2	1385.5	1522.4	2635.0	4427.0	5235.0	5422.0	6020.9	6048.3	6278.9
4. Development expenditures	450.9	961.8	1397.7	2054.5	2156.8	2555.6	4014.2	5916.1	6940.0	7359.6	9899.2	10459.3	10647.0
5. Balance (3-4)	-196.5	-224.2	-488.4	-778.3	-771.3	-1033.2	-1379.2	-1489.1	-1705.0	-1937.6	-3878.3	-4411.0	-4368.1
Financed by:													
6. Counterpart funds[b]	89.8	36.1	20.2	10.2	35.8	48.2	64.8	64.1	45.1	15.1	14.9	39.5	70.9
7. Project aid	114.1	195.9	471.4	773.6	737.6	987.3	1316.3	1429.7	1663.9	1924.9	3867.5	4371.5	4297.2

Notes: [a] Includes debt-service payments
[b] Program aid

Source: World Bank (1985) citing Ministry of Finance.

Table 2.5 Indonesia's central government receipts, 1973/74-1985/86, in Rp billion

	Actual								*Budget*				
	1973/74	*1974/75*	*1975/76*	*1976/77*	*1977/78*	*1978/79*	*1979/80*	*1980/81*	*1981/82*	*1982/83*	*1983/84*	*1984/85*	*1985/86*
Taxes on income	505.0	1228.7	1592.1	2046.6	2511.3	2996.3	5129.3	8230.3	10100.3	10009.9	11605.1	12968.3	14401.1
Corporate tax on oil	344.6	973.1	1249.1	1619.4	1948.7	2308.7	4259.6	7019.6	8627.8	8170.4	9520.2	10366.6	11159.7
(% of domestic revenue)	(35.6)	(55.5)	(55.7)	(55.8)	(55.1)	(54.1)	(63.6)	(68.3)	(70.6)	(65.8)	(66.0)	(64.2)	(59.7)
Non-oil taxes, including income and corporate tax, IPEDA and other	160.4	255.6	343.0	427.2	562.6	687.6	869.7	1210.7	1472.5	1839.5	2084.9	2601.7	3241.4
(% of domestic revenue)	(16.8)	(14.6)	(15.3)	(14.7)	(15.9)	(16.1)	(13.0)	(11.8)	(12.1)	(14.8)	(14.4)	(16.1)	(17.4)
Indirect taxes including taxes on domestic consumption and international trade	412.9	458.4	539.4	740.9	879.5	1078.4	1380.2	1681.0	1775.9	1972.8	2308.1	2566.1	3544.9
(% of domestic revenue)	(42.7)	(26.0)	(24.0)	(25.5)	(24.9)	(25.3)	(20.6)	(16.4)	(14.5)	(15.9)	(16.0)	(15.9)	(19.0)
Nontax receipt	49.8	66.6	110.4	118.5	143.6	191.4	187.3	315.7	336.4	435.6	519.5	615.0	731.9
Total domestic revenue	967.7	1753.7	2241.9	2906.0	3534.4	4266.1	6696.8	10277.0	12212.6	12418.3	14432.7	16149.4	18677.9
(% of total revenues)	(82.6)	(88.3)	(82.0)	(78.8)	(82.0)	(80.5)	(82.9)	(87.3)	(87.7)	(86.5)	(78.8)	(78.5)	(81.0)
Development Funds	203.9	232.0	491.6	783.8	773.4	1035.5	1381.1	1493.8	1709.0	1940.0	3882.4	4411.0	4368.1
(% of total revenues)	(17.4)	(11.7)	(18.0)	(21.2)	(18.0)	(19.5)	(17.1)	(12.7)	(12.3)	(13.5)	(21.2)	(21.5)	(19.0)
Total revenues	1171.6	1985.2	2733.5	3689.8	4307.8	5301.6	8077.9	11770.8	13921.6	14358.3	18315.1	20560.4	23046.0
	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)

Source: Adapted from World Bank (1985) p. 207, citing Ministry of Finance data.

Table 2.6 Indonesia's gross domestic investment, 1974/75-1984/85, in Rp billion

	1974/75	*1975/76*	*1976/77*	*1977/78*	*1978/79*	*1979/80*	*1980/81*	*1981/82*	*1982/83*	*1983/84*	*1984/85*[a]
1. Direct government investment[b]	458	750	520	954	1249	1422	1908	3632	4223	2651	3987
2. Public enterprise investment[c]	768	1221	1346	749	989	1773	2093	2730	4143	4761	4914
3. Total public investment	1226	1971	1866	1703	2238	3195	3901	6362	8366	7412	8901
(as % of gross domestic investment)	(68.2)	(76.6)	(58.2)	(44.5)	(47.9)	(47.7)	(41.1)	(55.1)	(64.1)	(60.0)	
4. Private[d] investment	571	601	1339	2123	2433	3509	5584	5191	4690	4945	
(as % of gross domestic investment)	(31.8)	(23.4)	(41.8)	(55.5)	(52.1)	(52.3)	(58.9)	(44.9)	(35.9)	(40.0)	
Gross domestic investment	1797	2572	3205	3826	4671	6704	9485	11553	13056	12357	

Notes: [a]Preliminary figures
[b]Government savings, net foreign savings and borrowings less transfers to public enterprises
[c]Including transfer from Central Government, internal savings and domestic borrowing
[d]A residual figure: GDI minus total public investment

Sources: Adapted from World Bank analysis of the public sector capital account citing budget data, Bank Indonesia financial statistics and World Bank Debtor Reporting System (*World Bank*, 1985b, p. 180).

Table 2.7 Indonesia's disbursed and outstanding medium-and long-term debt in US$ billion at current prices

	1981	*1984*	*1990(projected)*
Public debt	15.9	24.6	41.4
Private debt	3.6	3.8	5.5
Total	19.5	28.4	46.9
Debt service ratio	10.4%	21.1%	23.8%

Source: World Bank (1985) p. 59.

Table 2.8 Indonesia's development expenditures, by sector (%)

Sector	*Repetita III period of the third 5-year plan (actual)*	*Repetita IV fourth 5-year plan 1984/85-1988/89 (planned)*
Productive sectors:	27.1	17.5
Agriculture	7.9	6.8
Industry	12.0	7.5
Mines	7.2	3.2
Economic infrastructure:	25.5	30.7
Irrigation	4.5	5.9
Energy	7.9	12.2
Communications	13.1	12.6
Social sectors:	16.0	23.0
Education and culture	10.0	14.7
Health and population	3.5	4.5
Housing and resettlement	2.5	3.8
Other sectors:	31.5	28.7
Total	100	100

Source: World Bank (1985b) p. 78, citing Repelita III & IV and Ministry of Finance.

Chapter 6
Authoritarian States, Capital-Owning Classes, and the Politics of Newly Industrializing Countries: The Case of Indonesia

In the 23 years since the military-dominated government of President Suharto seized power in Indonesia, the economy has been transformed from one based predominantly upon the export of primary agricultural products, petty trading, and commodity production to one with a rapidly developing industrial base. While agriculture declined from 53.9 percent of GDP to 26.4 percent between 1967 and 1983, mining (including oil) increased from 2.7 percent to 19.4 percent, and manufacture from 7.3 percent to 12.5 percent.[1] Nurtured by an authoritarian regime, a substantial capital-owning class has also emerged; the process has provided an insight into the complexity of relationships between authoritarian regimes and capital-owning classes in new industrial economies and the nature of the tensions that threaten these relationships. Although this paper will focus upon the ways in which the Indonesian regime provided the conditions for the development of industrial capitalism and the social power of the capital-owning classes, my analysis will take place in the context of theoretical debates about authoritarian states, capitalist industrialization, and the emergence of a bourgeoisie in newly industrializing countries.[2] In particular, it will examine two questions:

1. How can we explain the policies of the state toward the capital-owning classes when social power in civil society is separated from political dominance over the state apparatus—i.e., when the ruling class does not rule and the state apparatus is in the hands of its own officials?[3]

2. Is the authoritarian regime and state-centered capitalist industrialization a new and enduring form or a phenomenon of the period of transition from feudal or colonial to industrial society, in which the state provides the political and economic conditions for late industrialization and the protection for an emerging but fragile capital-owning class? Does the authoritarian regime embody characteristics which

at a certain stage, become both unnecessary to and a constraint on the expansion of industrial capitalism and the emerging capital-owning classes? Do the capital-owning classes, after incubation by authoritarian regimes, outgrow them?

State and Class

Authoritarian regimes have played a prominent and pivotal role in late capitalist industrialization; examples are Germany, Japan, and Eastern Europe in the late 19th and early 20th centuries as well as the more recent cases of Argentina, Mexico, Brazil, Uruguay, Chile, and the rising industrial superstars of Asia: South Korea, Taiwan, and Singapore. In each of these cases, authoritarian regimes served vital political and economic functions. They ended the dominant political and social power of an entrenched but disintegrating feudal order and provided the emerging capital-owning and middle classes with protection from working class and peasant-based reformist and revolutionary forces. In their paramount economic roles, they often supplied the essential investment for economic infrastructure and heavy industry, developing banking systems and generating growth through policies of economic and in some cases military expansion.[4]

In the recent Asian cases in particular, the regimes were instrumental in the growth of private, domestic capital-owning classes; they were responsible for tariff protection, trade monopolies, cheap credit, public utilities, state contracts for supply and construction, extensive state education systems, and disciplined low-wage labor.[5] In Latin America—despite greater fluctuation in the historical development of state policy toward the capital-owning classes, which saw periods of nationalist protection alternate with periods of support for the upper, often foreign-dominated, bourgeoisie—Huntington's observation of twenty years ago remains generally accurate: "They [the military] become the guardians of the existing middle-class order...their historical role is to open the door to the middle class and close it on the lower class."[6]

Explaining the role of the authoritarian state in industrializing societies has been more difficult than recognizing it. Although there is a wide range of material on the subject, this paper will not be concerned with the more voluntarist analyses that concentrate on state power as primarily a function of institution building; rather, it will examine those approaches that explicitly focus upon the problem of the relationship between state power and social power. These approaches may be broadly divided into three major but overlapping schools of thought: instrumentalist, structuralist, and state-centered. Because I will be analyzing the Indonesian experience in terms of these three schools, some brief explanation is required.

The instrumentalist approach seeks to explain the state and its policies in terms of its subordination to instrumental control by the dominant social forces—whether through class-based parties, recruitment of members of the dominant class into the state apparatus, or the ideological hegemony of the ruling class.[7] In the case of Indonesia, significant numbers of political and bureaucratic power holders are also

state managers of capital or substantial private owners of capital. However, any attempt to explain the military regime purely in such terms presents real problems because of the institutional autonomy of the state, the weakness of political institutions external to the state apparatus, and the poorly developed and defined class structures that existed in at least the initial stage of state formation.

Structuralist approaches that recognize the relative autonomy of the state are more useful; autonomy is constrained, not by instrumental control, but by limits and imperatives placed upon state action through the very structures of society and economy. According to the structuralist position the state cannot, in the long term, contradict the logic of the economic system or override the interests of the dominant class.[8] The capital-owning classes have power, not in a formal political sense, but because they are the key to investment, production, and economic growth, and are essential to the economic survival of the society as a whole.[9] Their dominance is embedded in the very structure of the prevailing social and economic system. Consequently, the state is forced to intervene, by legislating and investing in troubled sectors, in order to mediate and resolve political and economic crises that threaten the health of the system as a whole.[10] Although structuralism avoids many of the difficulties inherent in instrumentalist approaches, it contains a mechanistic and determinist tendency that underestimates the significance of struggles at the political level, both within and between capital and the state, which play a formidable role in shaping power.

In Indonesia, the state and its officials constitute a coherent and identifiable political force of considerable autonomy and dominance. Here the state-centered approaches of writers like Skocpol, Trimberger, and Block are most useful—precisely because they recognize coherent and specific interests such as maintenance of power and revenue bases, and strategic and military objectives. The state can therefore be analyzed as a separate factor in the struggle for power and control over policy, which can (and does, when necessary) contravene the interests of the dominant class. Whether it is successful or not depends largely upon the conjuncture of state action and the configuration of social and economic power, thus bringing us back to the ultimate conditioning role of structural factors. At this level, we must also consider the political role of social forces. In Indonesia, a pact of domination had been forged between the politico-bureaucrats who dominate the state apparatus and the leading elements of the capital-owning classes based upon a complex conjuncture of interests. In times of stress, however, fissures have appeared in this alliance as the interests of the state have come into conflict with those of important segments of capital, and as these segments themselves have struggled for political advantage.

Authoritarian Regimes as a Transitional Phenomenon

The second question to be considered is that of the relationship between authoritarian states and specific stages of industrial development. Writers such as Gerschenk-

ron, Moore, and more recently O'Donnell have noted the affinity between liberal democratic political systems and phases of capitalist development characterized by the free movement of goods, labor, and capital. Similarly, there is an affinity between authoritarian regimes and late industrialization involving investment in heavy industry.[11] In the latter case, authoritarian regimes are the result of pacts of domination between the larger bourgeoisie and the military. Such pacts are brought about in order to resolve political crises (i.e., popular and revolutionary challenges) and economic crises emerging from the system of import substitution industrialization; they also impose the discipline and control needed for a progression to large-scale investment in heavy industry. Pre-World War I Germany and Japan are traditional examples of the marriage of heavy industry and authoritarian rule; O'Donnell and others have also applied this model to situations in Asia and Latin America.[12]

Recent events in Brazil, Uruguay, Argentina, South Korea, and the Philippines indicate, however, that authoritarian regimes are making significant retreats. As Stepan remarks, referring to Latin America:

> Bureaucratic authoritarian regimes are still with us, but if the 1960s was the decade of the exhaustion of the early stage of import-substituting industrialization and parliamentary democracy in the southern cone, the 1980s appear to hold the promise of the "exhaustion" of the BA regime.[13]

Several reasons for a retreat from authoritarian rule are suggested by the prevailing theories. First, the phase of industrial deepening is being replaced by a phase of export-oriented industrialization and greater integration into the international division of labor, making the sort of economic and social regulation and control provided by authoritarian regimes irrelevant and counterproductive. Second, the rupture of the pact of domination as a consequence of the growing social and political power of the capital-owning and middle classes has resulted in a direct challenge to the regime. Third, the rupture of the pact of domination has, by its fragmentation and increasing internal conflict, weakened the social basis of authoritarian rule.

While the shifts of power in South Korea, Thailand, and Brazil were partly related to a strengthening of civil society and in particular, to the power of the capital-owning classes, this was not the case in the Philippines and Argentina, where the new civilian governments are struggling to build social and political power bases of substance.[14]

Other differences in experience are demonstrated by specific cases: in Brazil, the capital-owning and middle classes pushed for a return to democracy; in Chile, a historically substantial middle and capital-owning class continues to give its support to the Pinochet regime. The authoritarian state in Indonesia has exercised power arbitrarily and pursued nationalist economic policies; the regimes of Singapore, South Korea, and Chile have been highly regularized, and their economic

nationalism is circumscribed. The point illustrated here is that, while political systems may be conditioned by the international context in which they operate or the stage of industrialization over which they preside, the precise nature of regimes is the outcome of a specific history of social and political conflict.[15]

The retreat of authoritarianism over the past decade can only partly be explained by challenges from an increasingly powerful and well-organized civil society. A more pervasive factor in the recent weakening of the position of authoritarian regimes in industrializing economies may be found in their inability to handle the growing economic crises of the 1980s: debt, inflation, growing balance-of-payments deficits, fiscal crises, declining investment, and decaying infrastructure. These are important reasons behind the rush to hand over power in Latin America and to hand over economic responsibility to the private sector in Indonesia, Malaysia, and Singapore.[16] In such cases, the ideology and institutions of authoritarianism are likely to be in hibernation rather than in eclipse.

The political impact of economic crisis has been particularly severe on authoritarian regimes, and it is here that we may be able to identify some general inadequacies of such regimes as long-term political vehicles for industrialization. As O'Donnell and others have observed, the legitimacy of regimes is largely based upon their capacity to deliver economic growth; when this evaporates, so do most of the reasons for allies to remain loyal.[17] Ferdinand Marcos is a prime example of a ruler deserted by external and domestic allies as economic collapse deepened. O'Donnell explains this tendency as a product of the inherent inability of authoritarian regimes to build into the political system the mediations between the various factions of the capital-owning classes and between capital and labor that are necessary to hold the system together when economic conditions deteriorate.

The options, however, are not simply "authoritarianism" or "democracy." Authoritarian regimes take a variety of forms and preside over a wide range of economic policies and political alliances. The growing power of a bourgeoisie and the greater complexity and flexibility forced upon the state by a need to accommodate the international economy may result in a shift from a simple, narrowly based, and autonomous regime to one that is more complex and regularized, and yet less independent of market and dominant social forces. This is what is happening in Indonesia.

The Indonesian Case

Indonesia has experienced authoritarian rule since 1960, a major counterrevolution in 1965, and an oil boom in the 1970s, followed by a dramatic collapse in oil prices in the 1980s. These events have been combined with wild swings in economic policy and a constant process of economic struggle within and between the state and the capital-owning classes. As a consequence, Indonesia offers an important insight into the politics of capitalist industrialization and the relationship between the authoritarian state and the capital-owning classes.

Liberal Democracy, Authoritarian Populism and Counterrevolution: 1949-1965

In 1949, Indonesia's new republican government inherited a commodity-based export economy already in serious decline. With the elimination of the colonial regime, the dominant Dutch capitalist groups in banking, trade, and plantation estates were no longer guaranteed protection in the international marketplace and privileged access to land and labor within Indonesia. A rapidly growing vacuum was ready to be filled.

The domestic capital-owning classes were largely concentrated in the petty trading and small-scale commodity production sectors; they hardly constituted a promising basis for a strong bourgeoisie and capitalist industrialization. Because of their division into indigenous and Chinese elements, their political potential was seriously blunted. The indigenous group tended to be Muslim-oriented and strongly anti-Chinese; although it had proved able, from time to time, to force governments to introduce ad hoc protective legislation, it enjoyed little sympathy from state and party officials drawn from the bureaucratic middle classes who were wary of right-wing Muslim sentiments.[18] The Chinese, on the other hand, were more successful in building corporate, trading, and credit networks, but they were unable to play a formal, public political role.

At the political level, none of the fragmented parties in the 1950s had developed from a strong social base, and none could be regarded as representing the interests of the capital-owning class in any coherent way. Various governments had attempted to develop the support of the indigenous petty capitalists by offering protection and monopolies in the import sector, but these experiments usually disintegrated into chaos and corruption. A few larger domestic groups were based on access to licenses, monopolies, and concessions provided by political patrons, but they remained almost exclusively tried to trade; none provided the cutting edge for industrial investment that economic planners hoped for.[19]

Under the guidance of Industry Minister Sumitro, an industrial plan was formulated that assumed and intended a significant degree of private participation.[20] The fact that none was forthcoming indicated that greater profits could be made by importing, and that private domestic capital had neither the resources nor the corporate organization necessary for large-scale, long-term industrial investment. Thus, the state came to occupy the center stage of domestic capital ownership by default rather than by design.

When the government confiscated Dutch corporate assets in 1957-58, only a few ended up in private hands. The trading and plantation companies were largely appropriated by the military as sources of revenue. Furthermore, there was a widespread feeling that private and, particularly, indigenous capital had proven itself incapable of playing a responsible and effective economic role: if Indonesia was to industrialize, the state had to take the lead.[21]

The vacuum of power at both the social and the political level and the resulting

entropy throughout the 1950s culminated in a political revolution from above, led by Sukarno with the support of the military. Parliamentary government was supplemented by an authoritarian regime, populist in style and corporatist in structure. However, the chaos was not over. Sukarno's political authority rested upon a highly personalized brand of patronage and charismatic populism that had neither an organizational nor a social base to sustain it. Continuing and deepening economic crisis and political conflict led to a military takeover in 1965, and to the elimination of both Sukarno and the growing Communist Party (PKI).

The military takeover resolved two crises. First, it settled a struggle for power between the military and the PKI, the two cohesive political forces that had emerged from the period of political disorder. Second, it reconstituted the path of capitalist development by bringing back international capital, the crucial and hitherto missing ingredient needed to clear up the crisis of investment and debt.

When the New Order came to power, the capital-owning classes were at low ebb. Since the nationalizations of 1957-58, foreign investment had been limited to the oil and minerals sector, where it operated under production-sharing agreements with the government. With the exception of relatively few domestic business groups that held lucrative trade monopolies, the bulk of domestic private capital remained locked into small-scale trade and manufacture. As the Sukarno regime encountered deepening economic crisis, even these groups were hard hit by surging inflation, lack of foreign exchange, and a collapsing infrastructure.[22]

The New Order inherited a large, rambling state-owned sector, for the most part located in trade and agriculture. Although the Sukarno government had attempted to use state corporations to develop an industrial base in manufacturing, including cement, steel, automobiles, shipbuilding, fertilizers, and engineering, these ventures had for the most part been rendered moribund by incompetent and corrupt management, inflation, and a shortage of investment funds and foreign exchange for import of technology and spares.[23]

Economic Rehabilitation and the Early Stage of Import-Substitution Manufacture: 1965 to the Mid-1970s

Although the land- and capital-owning classes and the salaried and professional middle classes supported the new regime of General Suharto, they were quickly disabused of any expectation that they would participate in government. The military, and selected civilian bureaucrats, rapidly assumed control of the state apparatus. They reinforced authoritarian rule by the consolidation of corporatist institutions and ideologies. The ideologues of the New Order attempted to legitimize the regime by arguing that a period of authoritarian rule, and hence, objective, scientific, and decisive policy-making was necessary to build an industrial base for the economy and provide the preconditions for future democratic government.[24]

Economic and industrial policy was hammered out in 1966 and 1967 by a team of technocrats appointed by Suharto to rehabilitate the bankrupt economy, solve the

fiscal crisis and enable investment to begin again. The rescheduling of Indonesia's debts and negotiating of new loans made possible the resumption of commodity imports and thereby brought down runaway inflation. It also ended the desperate shortage of inputs that was strangling domestic production. In return for the assistance of international creditors, Indonesia's new leaders agreed to end the nationalist policies of state-led industrialization and to encourage private investment in the consumer-goods and agricultural sectors. Further, they agreed to draft a new foreign investment law that provided relief from taxation and other incentives for foreign investors. This was not a move toward free-market policies, but toward import substitution industrialization behind substantial tariff barriers in the hope and with the intention that private domestic and foreign investors would replace state corporations.[25]

Such policies were branded—by nationalist and radical critics alike—as a sellout to foreign capital and a victory of the international bourgeoisie over an attempt to achieve economic autonomy. The technocrats, most of whom had been trained in the United States, were charged with being agents of imperialist ideologies and with implementing policies that would crush domestic capital and allow domination by multinational corporations and the World Bank.[26] In fact, the adoption of these policies was a consequence of domestic considerations. After the political defeat of Sukarno and of the PKI, the new rulers sought an economic strategy compatible with the interests of the dominant political and social forces, which would at the same time address the fiscal crisis faced by the Indonesian state and a more general crisis of investment. Domestic capital, both state and private, was clearly unable to provide the engine for investment and growth that was so desperately needed. In the meantime, inflation and the balance-of-payments and revenue crises required urgent inputs of funds that could only be supplied from abroad.[27]

It is not correct to say that domestic capital in general was sacrificed to foreign interests. True, the domestic, Muslim-oriented petty bourgeoisie continued on its path of gradual decline in trade and small-scale manufacture. The political organizations that represented its interests were ignored by the state, which instead sponsored its own business organization, Kadin, under the directorship of military businessmen.[28] In fact, domestic investment grew substantially between 1965 and 1975; by 1975 it furnished around 50 percent of total non-oil investment.[29] Over half of this was provided by the state, but a significant development was the emergence of a large number of private corporations enjoying political patronage; they were located not only in trade, but in manufacturing, forestry, property, and transport.

Political patronage and state protection afforded privileged access to state bank credit, forestry concessions, trade and manufacturing monopolies, official distributorships of basic foodstuffs, and state contracts for supply and construction. The bulk of these new corporate groups were Chinese-owned; their directors generally had long associations with the military, acting as financiers for army commands

and individual generals, and de facto managers for corporations owned by the military. Several indigenous capitalists also emerged, not from the traditional Muslim petty bourgeoisie, but from the higher echelons of the civil and military bureaucracies.[30]

Industrial Deepening and Economic Nationalism: Policy from the Mid-1970s to the Early 1980s

Starting in the early 1970s, the government began to shift its industrial strategy toward the goal of creating an integrated industrial base embracing capital- and intermediate-goods sectors in addition to the established consumer-goods manufactures.

State corporations such as Pertamina and Krakatau Steel led the way in making extensive investments in petrochemicals, fertilizers, steel, and metal engineering. These were complemented by massive state investments in infrastructure, particularly transport and communications. Substantial benefits accrued for domestic private capital from this policy because the bulk of government spending involved the purchase of technology and provision of infrastructure and plant. Although international corporations secured most of the contracts for supply and construction, domestic corporations were given access to the limit of their capacity. The position of the latter was reinforced by policies that mandated the exclusion of foreign investors from sectors in which domestic capital had the capacity to operate, or by the requirement to take domestic joint-venture partners. Large private domestic corporate groups flourished during this period, aided further by the general buoyancy created by the injection of oil money into the Indonesian economy.

Why was such a change in the direction of industrial policy taken and, in view of the degree to which it benefited the new domestic corporate manufacturers, what role did the latter play in the development of the new policy?

The idea of an integrated industrial base for Indonesia was not new. It underlay the policies of Professor Sumitro in the 1950s and of Sukarno in the 1960s. The creation of a capital- and intermediate-goods sectors was conceived, not only to end economic dependence, but to allow strategic autonomy. In the early 1970s, General Ali Moertopo embodied the strategic aspect in the concept of "national resilience."[31] Since 1965, the architects of Indonesia's industrial policies—Ibnu Sutowo, Soehartoyo, Soehoed, Hartato, Ginanjar, and Habibie—have all argued the merits of protection and heavy state investment in major industrial projects. Without the base of capital- and intermediate-goods production and the backward and forward linkages offered by integrated circuits of industrial production, self-sustaining and self-generating industrialization was, in their opinion, not possible.[32] Such views were implemented in policy as a result of the boom in state revenues and foreign earnings generated by oil. The corporate tax on oil grew from Rp. 344 billion in 1973/74 to Rp. 8,627 billion in 1981/82 (from 35.6 to 70.6 percent of total revenue).

The ideological commitment to industrial deepening also enhanced the financial base, economic power, and patronage of the major bureaucrats and state managers of capital because it was they who appropriated the authority to direct investment, allocate contracts, and grant import monopolies. Policies of industrial deepening and state regulation therefore became integrated into the political interests of the bureaucrats of the New Order.

Between 1975 and 1985, the role of private capital in the rapid state-led industrialization of Indonesia varied dramatically. The declining, Muslim-oriented small-business sector continued to slide despite its strident political resistance. In the months before the anti-Japanese student riots of 1974, associations and newspapers representing Muslim-oriented indigenous small capital had conducted a public and virulent anti-foreign, anti-Chinese campaign in an effort to halt their deteriorating position. After the riots in Jakarta in January 1974, several protective measures were introduced for domestic and indigenous capital, including the requirement that foreigners take indigenous joint-venture partners; such requirements, however, generally proved to be ineffectual and poorly implemented.[33]

Foreign capital investment continued to dominate in the oil and mineral sector, but decline in the non-oil sector between 1977 and 1985. Foreign corporate spokesmen put the blame on controls upon the sectors in which they were permitted to invest, joint-venture requirements, over-regulation by government, corruption, and bureaucratic incompetence.[34] Because the Indonesian government had access to huge amounts of oil money that made it less reliant on foreign sources of funding, it could now afford to impose stringent requirements on foreign investors.

This situation contrasts with the phenomenal growth of major domestic corporate groups. Led by Liem Sioe Liong, Willem Soerjadjaja, Tan Siong Ke, Bob Hasan, Hendra Rahardja, Ciputra, and various Suharto family interests including the Bimantara group, these corporate groups extended their industrial activities—invariably in joint ventures with foreign partners—into auto manufacture, tires, batteries, components, cement, electronics, into the engineering sectors that grew around the oil industry, and into the manufacture of steel. Business groups with strong political connections, including Liem, Bob Hasan, and the Suharto's Bimantara group, secured control of the import of technology and raw materials.[35]

The emergence of these groups would not have been possible without state policies that strictly regulated the penetration of foreign capital to allow a domestic dominance in certain areas such as foodstuffs, import and domestic distribution, logging, plywood, and cement. Controlled access was permitted to the technology- and capital-intensive sectors where domestic capital needed foreign technology, organization, and skills. Some domestic groups would not have grown so rapidly without privileged permission to form monopolies, or without concessions, licenses, and credit made available by political patrons in a heavily regulated economy.

These policies of protection and subsidy were not imposed upon the state by a

politically cohesive and powerful bourgeoisie. Class action was politically difficult because the dominant element of the emerging domestic corporate giants was Chinese, and therefore not accorded a legitimate public role in Indonesian politics. Instead, the political strength of capital in this period derived from a combination of nationalist ideologies and alliances of individual capitalists with specific centers of politico-bureaucratic power. Highly profitable client corporate groups gave the politico-bureaucratic power centers access to revenues for political and personal needs, as well as entry to the world of corporate capitalism as shareholders and investors. Increasing numbers of officials and their families secured equity in client corporations, mostly Chinese-owned, and established trade monopolies. Because they were able to determine the flow of patronage in a heavily state-controlled economy, they could virtually guarantee huge profits at the corporate level. With the blurring of the boundary between political power and bureaucratic authority, an increasing fusion of politico-bureaucratic power and corporate capital ownership had developed, which constituted one of the driving forces behind the growth of private domestic capital in this period.

Collapse of Oil Prices and the Emergence of Contradictions between Capital and State

Surging oil prices and the consequent boom in state revenues in the decade starting in the early 1970s enabled the state to finance an ambitious program of industrialization, built around large projects, for production of capital and intermediate goods. In 1982, however, oil prices declined from $38 to $28 per barrel, and in early 1986 they collapse to $12 before climbing slowly and fitfully back to $18. This price collapse had a dramatic effect upon Indonesia's foreign earnings and state revenues, both of which went into deficit.[36] The Indonesian government was no longer able to underwrite the industrialization program; indeed, it was forced to look around for a non-oil domestic tax base.

The oil price collapse resulted in a transformation of the economic environment in which political conflict erupted over economic policy. Within the capital-owning classes, influence shifted from the major domestic corporate groups dependent upon state protection and regulation to international corporations with an interest in maximizing the free international movement of capital. At the same time, major differences developed between downstream producers, upstream producers, and importers of industrial inputs. Most important, there was a shift in the relationship between state and capital, and a weakening of the position of the politico-bureaucrats.

Domestic manufacturers suffered in the 1980s not only because the decline in state investment meant fewer contracts and orders, but also because a general world recession dampened demand both domestically and internationally. Domestic companies began to operate below capacity. The decline of state investment produced decline in the private sector; precisely at the time when the state looked

to domestic private capital to take up a greater share of the burden of investment,[37] the latter was less able to do so. Indeed, the state was forced to come to the rescue of one of the largest industrial conglomerates, Liem Sioe Liong's Indocement, and to relieve it of the increasing burdens of servicing U.S. dollar debts when its domestic output and the value of the rupiah were both falling. The state purchased 33 percent of Indocement and made cheap state credit available, enabling the firm to replace expensive dollar debts with cheap rupiah ones.[38]

Most significant were the divergent interests of the upstream producers of capital and intermediate goods and importers on the one hand, and on the other, downstream producers of consumer goods for both domestic and international markets. As the economic squeeze intensified, downstream producers argued that expensive inputs raised their costs of production, and they demanded the right to purchase on the open market. Because protected and subsidized domestic upstream producers would be unable to compete with foreign imports if tariffs and quotas were removed, such pressure was a threat to the state's plans to develop an integrated industrial base. The demands were also a threat to the extensive system of import monopolies that embraced the full range of imported inputs and was controlled by alliances of politico-bureaucrats and their corporate clients, including the Suharto family.

The government was forced to accede to some of the demands of the downstream producers—not because of their political strength, but because of the need to develop a viable sector of non-oil (and preferably manufactured) exports. Despite low wages, manufactured exports had been limited by high costs of production, due mainly to high input costs and bureaucratic inefficiencies and charges. The government introduced reforms in May and October 1986, reducing the number of import monopolies and permitting downstream producers to circumvent some of the import monopolies by independently importing inputs where these were required for export production and not available domestically.[39] The reform contained a second threat to the major domestic corporate groups, namely the concessions offered to foreign investors. The number of sectors previously closed to foreign investment was drastically reduced, and requirements for the transfer of equity to domestic partners were relaxed. Foreign companies were permitted to borrow from domestic banks and to engage in domestic distribution; tariffs were lowered across a wide range of sectors.

The struggle over policy and the shift toward a less protected national economy more closely integrated into the world economy was clearly conditioned by fiscal pressures and balance-of-payments deficits brought about by the oil crisis. At the same time, there was a very real political dimension to the conflict, in which several major forces and interests were involved, as follows:

1. Forces acting generally in defense of policies of state-led industrial deepening.

a. Military and civil bureaucrats. Because of their political and economic

position, they had the ability to appropriate the resources and authority of the state apparatus, and increasingly combined political power, bureaucratic authority, and capital ownership. Since considerable power and revenue is derived from the allocation of licenses, monopolies, and concessions within a complex system of state regulations, the erosion of this state control weakened the position of the politico-bureaucrats.

b. Economic policy makers within the state apparatus with a political and ideological commitment to creating a broad industrial base for Indonesia, integrating capital, consumer, and intermediate goods. Over the past twenty years, these have included managers of the most important state corporations and ministers in charge of such strategic economic portfolios as Industry, Research and Technology, and the Capital Investment Board.

c. Private and state-owned capital in the upstream sector. The bulk of these enterprises are state-owned: Krakatau (steel), Pertamina (oil and petrochemicals), PAL (shipbuilding), numerous other projects in metal processing, cement, engineering, and chemicals. Private capital has moved increasingly into such industries as cement, plastics, tin plate, cold-rolled steel, pharmaceutical raw materials, and auto engines. Few of these industries would survive a removal of protection and subsidy.

d. Importers of industrial inputs of both intermediate and capital goods. Because these inputs are invariably held as monopolies, importers are able to operate without competition in Indonesia. Some import monopolies are tied to domestic production, as already noted in the case of cold-rolled steel (Liem Sioe Liong), and plastics and tin plate (Bob Hasan). Opening up the import market and removing monopolies would spell disaster for the traders. Dominant among these importers is the Bimantara group, comprising members of the Suharto family.

2. Forces operating to reduce state economic control and to open up the market.

a. Economic planners within the World Bank and various Indonesian planning bodies and universities who argue for deregulation and movement into industries that hold a comparative advantage. They themselves do not hold political power, but have had policy successes because economic conditions have made it increasingly difficult for the state to continue to finance its nationalist industrial policies.

b. International capital, which—although complex and characterized by numerous internal divisions and conflicts of interests—has increasingly pressed for deregulation of the economy and the regularization of the state apparatus. The attractiveness of direct foreign capital investment and the influence of its demands grows as the domestic capacity to generate investment decreases. The position of foreign capital is also strengthened as Indonesia's accelerating foreign debt requires increasing access to foreign loans.

c. Domestic downstream producers forced to purchase their manufactured inputs at inflated prices, either from import monopoly holders or from protected and subsidized, but inefficient, domestic firms. These producers are also hardest hit by

recent currency devaluations. Their commitment to the free market is selective, however, and we must assume that they would oppose free entry of consumer goods into Indonesia.

For five years, the struggle over economic policy has been one of the most public and controversial aspects of Indonesian political life. The level of passion and sensitivity can be gauged by the fact that one of the largest and most influential newspapers in Indonesia, *Sinar Harapan*, was banned—partly in response to a story that the government was set to abolish all non-tariff import barriers.

Finding themselves favored by the new economic situation, advocates of deregulation, including the World Bank and domestic economists such as Professor Sumitro, the influential and respected former Industry and Trade Minister, have become increasingly vocal in calling for dismantling of the large protected industries and a shift in policy toward export-oriented production based on comparative advantage.[40] Perhaps the most dramatic step by the government was its decision, in 1985, to take the responsibility for assessment of import duties away from the notoriously corrupt Customs Department and employ a Swiss survey company for this task.[41] This decree was a direct assault on the basis of the politico-bureaucrats' power—and a measure of the urgency with which the government was approaching the question of reducing the costs and increasing the competitiveness of industrial exports.

The whole issue of corruption represents a key factor in the changing relations between state and capital. Official corruption may have made possible the monopolies and privileges that have enabled the major domestic private corporations to emerge, but its negative aspects in terms of production costs and political uncertainty now pose an increasing problem, especially for downstream producers entering the export market. The latter now represent a far more significant economic and social force than they did some twenty years ago when the New Order came to power. In 1974-75, gross private domestic investment was Rp. 571 billion; in 1980-81, Rp. 5,584 billion was invested by private domestic capital.[42] While the largest corporate concentrations were heavily involved in upstream production and importing, the manufacture of consumer goods for the domestic market by large and small producers had grown exponentially in line with the substantial general rates of economic growth in the 1970s.

Over the past two years, domestic downstream manufactures have become increasingly and publicly critical, not only of official corruption and the import monopolists and upstream producers who contribute so much to the high cost of inputs, but toward the policies that underpin the development of a national, integrated industrial base. Critics have included some influential figures. One is Sukamdani Gitarsarjono, the present head of Kadin and publisher of Indonesia's major financial paper, who has close connections with the palace and major interests in hotels, cement, property, and construction. Another is Probosutejo, the President's brother, who has extensive holdings in trade, plastics, property, poultry,

chemicals, glass, construction, and automobiles.

Perhaps the most cohesive institutional base for the political development of these interests is Kadin, the Indonesian Chamber of Commerce. The intention of those elements of business that constitute Kadin has been to develop it as a corporatist institution in order to bring their influence to bear in a concerted way *within* the existing structures of power.[43] Business has not called for a change in the political system itself (which might have opened the door to participation by workers and peasants), but rather for a formal niche within the existing system. In 1987, Kadin was officially accorded the status of sole channel of communication between government and business. This enhanced status will undoubtedly strengthen its position within the business community and provide greater opportunities for business to influence policy making in a more direct and institutionalized way; but it is a two-edged sword which may also consolidate Kadin's position as an institutional channel by which the government may impose its control over business.

The resilience of economic nationalist ideas and the economic and political strength of the domestic upstream producers has proven to be considerable, however. As noted earlier, Capital Investment Board Chief Ginanjar, Research and Technology Minister Habibie, and Industry Minister Hartato continue to present strong defenses of the existing policies of industrialization, arguing that free-trade policies lead to dependence and stagnation. Self-sustaining and self-generating growth, they argue, requires complete industrial circuits able to generate backward and forward linkages; these can only be achieved by financing and protecting large industrial projects, particularly in capital and intermediate goods. Habibie's high-tech investment projects in aircraft, ship-building, and armaments have remained relatively untouched.

In a concrete sense, however, the strength of the existing industrial strategies and relationships between the state and capital is embedded in the political and economic interests of the major state managers, the large domestic corporate capitalists, and the state politico-bureaucrats. Huge assets are tied up in industrial projects that cannot be realized and transferred into other, export-oriented industries. A change of policy therefore constitutes a direct threat to the underpinnings of the political-economic alliance that dominates Indonesia. These interests in the military and the state apparatus can only be shaken or dislodged by a major and continuing fiscal crisis.

It is therefore not surprising that the state has postponed and abandoned major industrial projects only with the greatest reluctance, and has continued to fund key areas of investment in the capital-and intermediate-goods sectors despite the fiscal pressures and the increasing reliance on foreign loans.

Structural Change and Authoritarianism

Under Suharto, relations between state and capital have been characterized by the

emergence of a pact of domination among the politico-bureaucrats who control the state apparatus, an upper bourgeoisie of major domestic client corporate groups, and those elements of international corporate capital that are integral to the state's industrial strategy: the oil companies and the manufacturing investors. This pact has been founded on policies of highly regulated, nationalist policies of state-led industrialization that place the levers of economic power firmly in the hands of politico-bureaucrats and guarantee the economic position of domestic corporate clients.

The pact of domination has been bound together as well as threatened by a complex of elements. Perhaps the crucial factor in understanding the dynamics of these developments is the coherent identity and interests of the politico-bureaucrats themselves, an identity that is too complex to allow them to be categorized simply as either a state class or a political elite.[44] As officials of the state, they have a vested interest in securing the political and economic viability of the state apparatus—most importantly, a revenue base and the continuing economic growth necessary to legitimize the regime. As a governing elite wielding domination over the state apparatus, they are concerned with securing their own economic and political viability. They therefore require access to extrabudgetary funding that can be obtained either by directly appropriating state power and resources or by entering alliances with individual capitalists. As state managers of capital, they are concerned with the general process of capital accumulation and the protection of their corporate position within the economy. As individuals, families, and factions that hold trade monopolies and own shares or partnerships in corporations, they have a class interest in capital accumulation and the control of labor.

Alliance with major corporate groups (involving an exchange of funds or shareholding for concessions, contracts, or monopolies) has constituted the institutional basis of the symbiotic relationship between capital and the politico-bureaucrats. Because of their dependence on state patronage, client corporate groups are easily integrated into the state's broad industrial strategies: they become, in one sense, another arm of the state. Policies of economic nationalism and industrial deepening not only reflect the ideological commitment of politico-bureaucrats to national self-reliant development, but reinforce the power of the pact of domination by entrenchment in the complex network of control and regulations and the consequent opportunity for patronage and monopoly.

In the mid-1980s, the politico-bureaucrats and their corporate clients were nevertheless confronted by significant structural and political threats to their position and the pact of domination, as well as to the autonomy afforded the state apparatus by oil revenues throughout the 1970s and early 1980s.

The collapse of oil prices created an urgent requirement for the development of non-oil export earnings and domestic revenue sources. This need was in direct conflict with the focus on basic industries, high production costs, and poor export performance that had become an integral part of the strategy of state-led industrial

deepening, the system of state-allocated monopolies, and the protection of client corporate groups. The collapse of oil prices and the general recession also produced tensions and conflicts within the capital-owning classes: between the protected client groups and those excluded from the monopolies and state contracts, between domestic and international capitalists, and between upstream and downstream producers. The rapidly increasing national debt and reliance on foreign sources of loan and investment capital meant that international business was now in a more favorable position to dictate terms. The structural and political pressures unleashed on the state have had an impact on three areas: the mode of politico-bureaucratic domination of the state apparatus, the pervasive state regulation of the economy, and the strategy of integrated national industrialization. In other words, the pressures are mounting for regularization of the state apparatus and deregulation of the economy: a tantalizing combination of authoritarianism at the political level and liberalism at the economic. The state is not in a position to resist these pressures fully, as indicated by the reforms introduced into Pertamina and the Jakarta Customs Service, and the system of licenses, import monopolies, and tariff structures between April 1985 and December 1987, as well as the deregulation of the banking system.

What has happened is that the highly regulated and protected state-led economy of the oil era is increasingly at variance with the needs of capitalist operating in the new international division of labor, where the free operation of market forces and the free movement of capital are priorities. Without adequate oil reserves, the Indonesian state cannot avoid being drawn into this system, and the nature of Indonesian authoritarianism is beginning to change accordingly.

Clearly, the state's autonomy and its power to determine the structure of capital ownership and investment through regulation and allocation of resources has been diminished, as has the power of officials to appropriate the authority and resources of public office. The pact domination established between the politico-bureaucrats and leading domestic corporate groups has also been breached with the process of economic deregulation and the retreat from policies of industrial deepening. These transformation have been achieved as a consequence not of political struggle, but of structural pressures upon the Indonesian economy that favor the interest of international capital, downstream domestic producers, and domestic private bankers. Neither the capital-owning classes as a whole nor any of their factions are able to impose institutional, instrumental dominance over the state apparatus. They remain fragmented and politically disorganized while their leading elements, Chinese and foreign, are excluded from formal, class-based, political activity. Indeed, even domestic critics of the regime and its policies do not suggest democratic reform; rather, they are promoting a more formal accommodation of their interests within the existing authoritarian structures. This is a position consistent with relative political weakness, continuing economic dependence on the state, and the fear of opening the door to popular participation.

Notes

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Chapter 7
Structures of Power and the Industrialization Process in Southeast Asia

In contrast to the experience of the newly industrializing countries (NICs) of Asia: South Korea, Taiwan, Hong Kong and Singapore, where internationally competitive manufacturing sectors were developed in the 1960s and 1970s the Southeast Asian economies have moved much more slowly away from heavily protected, and often inefficient, inward-looking industrial structures. By the late 1960s, however, the import substitution industrialization strategies (ISI) of the region began to confront major problems including saturation of domestic markets, balance of payments difficulties and inflation. Attempts to rectify this by extending ISI beyond consumer goods production and into the capital and intermediate goods sectors were frustrated by sharp declines in commodity prices and growing external debt in the 1980s which reduced the capacity of states to finance these nationalist strategies. At this watershed it became clear, not only that many of these ambitious industrial projects could not be sustained but that long-term economic survival depended upon successfully developing sectors of manufacturing that were internationally competitive. Exactly how this should be done became the subject of an increasingly intense struggle over policy involving the interests of powerful political and social forces.

On the one hand we have seen pressures for the adoption of a free-market route to integration within the new international division of labour (NIDL). Whilst recognising, to various degrees, the political necessity for limited state intervention and protection, free market advocates have argued for removal of "distortions" in the economy, minimization of state intervention, "getting the prices right" and identifying and exploiting comparative advantage. It is a voluntarist approach given its implicit assumption that economic success is a matter of economic wisdom (identifying the correct policies) and political will (implementing them). The relationship between policies and social and political interests and power structures is not theorised. The IMF and World Bank (IBRD) have been the most prominent institutional sources for the articulation of this approach.[1] While important pockets

of domestic technocrats have given support to these free market strategies the real pressure upon governments to adopt such policies derives from their increasing inability to finance industrial deepening and their need to attract investment capital which will stimulate non-resource export earnings.

On the other hand the bulk of political leaders and industrial planners in Southeast Asia over the past two decades have been convinced that the appropriate path to an acceptable EOI involves state intervention and state investment in industry designed to create specific and planned comparative advantages. Rather than accepting the niches offered within the existing structure of NIDL which may have generated no backward and forward linkages or base of technology and skills, planners introduced industrial strategies intended to establish a niche in the NIDL embracing capital and intermediate goods sectors in which both state and private capital operates under the umbrella of state co-ordination.[2] "Look East," "Malaysia Incorporated," "Singapore Incorporated," "Thailand Incorporated" and "National Resilience" are a few of the slogans which have designated such policies.

Several questions emerge from the experience of industrialization in the region. Why have the structures and policies of ISI persisted over such a long period? What forces and factions are involved in the struggle over strategies to replace ISI; state-led and free-market routes to export—oriented industrialization. Whilst recognising the importance of a range of pressures originating in the changing structure of the international economy and the critical nature of domestic economic factors which may limit of shape the possible range of policy responses[3] I will argue that the nature of regimes, the structure of political power, the formation of a domestic capitalist class and the specific relationships between state and social forces are also powerful factors, decisive in shaping the way in which structural pressures are mediated into policy.

Politics and Economic Strategies: The Experience of the NICs and Implications for the Analysis of Southeast Asia.

Why have some Third World economies successfully integrated themselves into the NIDL as exporters of a broad range of industrial goods whilst others remain locked into inward-looking economic strategies, often built upon foundering import-substitution industrial bases? What has been the influence of political factors in this process? Here we may juxtapose the voluntarism of the explanations of neo-classical economists which stress the importance of adopting correct policies with determinist analyses emerging from dependency theories of development which argue that the place of Third World economies in the hierarchy of international relationships is determined by the dynamics of change in the industrial centres and the immutable nature of relationships between centre and periphery.[4] In the first analysis Third World economies can secure their own destiny simply by introducing the right policies; in the second they are helpless.

More recent and sophisticated analysis has, however, drawn attention to the

complexity of the way in which structural changes in the international economy, including the development of product cycles, technological change and the internationalization of capital come into conjuncture with processes of class formation, capital accumulation and state intervention in individual economies.[5] This has perhaps been most rigorously and extensively recognised in recent studies of the rise of the Asian NICs and without replicating the detail of this extensive literature, the following factors can be identified.[6]

a). Each of the four Asian NICS entered the post-colonial period with an existing set of factors which were to prove conducive to subsequent industrialization. In Korea and Taiwan the Japanese had established industrial bases of significance, the core of an education system and a skilled industrial workforce as well as a tradition of centralized state administration and planning. Both Singapore and Hong Kong were strategic centres of the British trading and financial networks with established communications, trading and banking infrastructures, an effective state apparatus and the basis of an educated middle class.

b). In the early post-colonial period each of the NICS received substantial injections of investment capital which stimulated the growth of manufacturing. In both South Korea and Taiwan in the important period of ISI between 1952 and 1962, US loans and aid funded 70% and 85% of imports and 80% and 38% of domestic capital formation respectively.[7] In Hong Kong an influx of investment capital from Shanghai accompanying the exodus of capitalists after the Chinese revolution laid the basis for a manufacturing industry. Singapore's industrialization was constructed from the beginning upon large inflows of direct foreign capital investment which continues to account for over 70% of total investment capital in the 1980s.

c). Although neither Singapore nor Hong Kong, with their small population developed ISI strategies, both South Korea and Taiwan established their industrial base upon a decade of ISI in the 1950s with key industries in textiles, cement, flat glass and consumer goods. The major business corporations of the 1970s and 1980s, which were to spearhead the assault on the world markets, had their origins within the network of tariff protection, state monopolies and concessions of the earlier ISI period. For these economies, ISI constituted an important nurturing and staging post for the development of EOI.

d). At the time the ISI strategies began to founder in Korea and Taiwan in the late 1950s and early 1960s, new opportunities began to emerge for Third World economies to establish export industries based upon low wage labour. Europe, Japan and US were in the process of shedding elements of the textiles, electronic assembly, plastics, engineering, whitegoods and cement industries. Subcontracting and the continuing growth of markets in the advanced industrial countries offered opportunities for new entrants into the international economy.[8] The NICs were well placed to respond to these new opportunities largely because state and private capital nurtured within ISI had reached a stage of development in the production of manufactures where ISI became a limitation on their potential and they required

new markets, new technologies and new forms of corporate organisation to expand accumulation.

e). In South Korea, Taiwan and Singapore, the state played a leading role in generating and coordinating industrial growth. States had both the resources and the power to underwrite and coordinate investment. Direct state investment in Taiwan accounted for 62% of gross domestic investment in 1958 and was still 50% in 1980.[9] In South Korea public enterprise share of total investment stood at around 30% throughout the 1960s, the decade crucial to the move into EOI, while in Singapore public investment constituted 29.8% of gross domestic capital formation in 1960 and continued at that significant level, standing at 30.7% in 1985.[10] In Taiwan and South Korea state investment in heavy industries continued well into the EOI phase and against the advice of the IMF/IBRD. Most important, the crucial transition from ISI to EOI was achieved by redirecting state regulation and intervention and not by the introduction of laissez-faire policies. Whilst some observers have explained the undeniable central role of the state as "market facilitating"[11] it is difficult to explain the deliberate attempt to create comparative advantage through the use of tariffs, low interest government loans and multiple exchange rates as anything but a short circuiting of market forces as they were currently constituted. As Amsden observed in the case of Taiwan: "...the government of Taiwan appears to have thought it prudent at times to shield the economy as much as possible from market forces and at other times to use them but never to embrace them as a rule of thumb out of conviction."[12] EOI in Taiwan and South Korea was orchestrated by the state which selectively manipulated tariffs to facilitate export production, encouraged cartels, provided infrastructure and export credits and suppressed organised labour. Speaking of South Korea's EPB (Economic Planning Board) in the 1960s, Cummings noted that:

> It took over from a previous ministry the entire budgeting function; it decides which industries and firms to promote, which to phase out; it closely supervises both the development and implementation of planning;...it surveys the world for needed markets, capital and technology.[13]

f). A final and crucial factor has been the emergence of states relatively autonomous of powerful social forces with interests in retaining either feudal social or economic institutions or, at a later stage, social forces whose interests were embedded in the perpetuation of ISI. In South Korea and Taiwan land reforms were undertaken by governments independent of the social and political power bases of rural elites. The effect of these reforms was to eliminate the power of the landowning classes and to channel investment out of land and rent into manufacturing, construction and the service sector. During the ISI periods in both countries "bureaucratic capitalism" flourished, involving alliances of state bureaucrats and capitalist parvenues or "cronies" operating in networks of state imposed monopolies.[14] However, the influence of these parvenues and the involvement of state officials was not sufficient to prevent sharp readjustment of policies when ISI began

to confront the typical problems of inflation, saturation, balance of payments deficits and corruption. A military coup in South Korea facilitated the abandonment of a simple ISI strategy in that country largely because the new military government was relatively autonomous of the ISI capitalists and their former bureaucrat patrons. The new Park government, in its quest to create an integrated industrial base was able to enforce regulations and ensure, by compulsion if necessary, that its strategy was implemented. Relationships between state and capital became increasingly institutionalised and subject to broad policy objectives. As Jones and Sakong remark it became the prototype of a "hard" development model.[15]

In the cases of Hong Kong and Singapore, no domestic class of import substitution manufacturers existed to challenge the regimes. It is important to recognise, however, that with the exception of Singapore where the state was truly the sole architect of EOI in league with foreign capital and where no powerful class of domestic manufacturers existed, the move to EOI in countries where the state played a leading role; Taiwan, and South Korea, was also a consequence of the metamorphasis of important elements of domestic capital and its increasing orientation to EOI. In an important sense the state could increasingly be seen to be responding to the transformation of domestic capital as much as it was the catalyst for its development. In Hong Kong the situation was again different with a vigorous class of domestic capitalists moving spontaneously into export without the stewardship of the state.

It is also significant that the ISI experience of Korea or Taiwan did not produce the social or political movements which emerged at similar stages of industrial development in Latin America where populism flourished and labour unions and popular parties played a major role in political life.[16] On the contrary, labour and popular parties were either actively repressed or kept firmly under control. It is only in the 1980s that consolidation of class forces has reached a level in the NICs where the economic leadership of the state and the political monopoly of the regimes has come under challenge and it is being done, ironically, by the very classes nurtured by the state: the capital-owning and middle classes. These developments are illustrated by the fall of Chun in Korea, the emergence of opposition parties of substance in Taiwan and South Korea and the moves to economic liberalization and privatization in Singapore.

There are three important deviations from the scenario discussed above when we come to consider the case of Southeast Asia, First, the international economic environment has changed to the extent that the route into the NIDL taken by the Asian NICs is no longer so clear or so available. Would-be Southeast Asian exporters now have to compete with such rivals as China in a world retreating further into protectionism and strategic bilateral and multilateral trade agreements.[17] Changes in technology and labour costs in the advanced industrial economies combined with new "just-in-time" production techniques are allowing some industries to be relocated in US, Europe and Japan.[18]

Second, the ISI phases, particularly in Indonesia and the Philippines, were much stronger and restructuring was able to be resisted far longer due to the political influence of estates of bureaucrat capitalists who embodied both bureaucratic authority and capital ownership as the basis of their social power. Structural links developed between these power holders and individual capitalists, creating and feeding off business' heavy dependence upon access to monopolies, concessions, contracts and finance confered by the state through its officials. The capacity of the state to continue to constitute an ever expanding trough for business was fed by an ever increasing inflow of oil and gas revenues and/or cheap foreign loans in the 1970s and early 1980s which allowed governments to keep financing ailing import substitution manufacturing sectors. Within ISI there had been little attempt to develop a genuine infant industries policy aimed ultimately at producing internationally competitive industrial sectors. Instead, ISI functioned, and was perceived as, a permanent protective apparatus for favoured capitalists whose enterprises were normally so inefficient and outdated that they lacked potential to survive outside frameworks of protection in world markets when pressure finally came to dismantle the tariffs and monopolies. In summary, regularisation of the state apparatus remained at a rudimentary level, the domestic capitalist class remained dependent upon ISI strategies while the state, expropriated by its officials and political leaders, was enmeshed with forces with a vested interest in ISI. Hence these lacked the autonomy to direct state resources towards developing industries and corporations with the capital, technological and organisational potential to be internationally competitive in designated sectors.

Third, when declines in commodity prices, growing foreign debt and sharpening fiscal crises in the 1980s reduced the states' financial capacity to persist with nationalist policies the Southeast Asian economies lost the primary resource for building EOI upon a broad industrial base. The subversion of the state apparatus by "bureaucrat capitalists" and corporate clients and the general failure of the respective capitalist classes to develop and autonomous capacity for accumulation in the industrial sector made it more susceptible to IMF/IBRD demands for the radical dismantling of state economic leadership.

The very entrenchment of the ISI structure and the success of the state in constituting itself as the central dynamic of growth meant that domestic capital, particularly in Indonesia and Malaysia, became dependent upon the government as a source of access to industrial investment. There was little need to focus upon expansion beyond the domestic market to ensure continuing profitability. Most important, the state was often unable or unwilling to throw its resources behind those elements of capital with the greatest potential to develop a competitive industrial capacity. In Malaysia and Indonesia racial factors restrained the degree to which the state could intervene on behalf of the leading elements of capital, which in these countries were Chinese. At the same time the political hand of weaker elements of capital were strengthened where they were indigenous. In the Philip-

pines the government ensured the persistence of a vigorous primary product export sector by providing lucrative monopolies for influential capitalist and landed families thereby ensuring that the most important capitalist cartels continued to be located in this area. In essence, state power became subject in a direct and instrumental fashion to economic and social interests entrenched in inefficient ISI structures. For these and other reasons which will be developed later the Southeast Asian economies, with the possible exception of Thailand, have struggled to make that crucial leap from simple ISI to an industrial structure which integrates a broad industrial base with a capacity to compete internationally in selected areas.

Political Power and Development Strategies: The Southeast Asian Experience

Thailand

Thailand's recent economic performance, particularly in the growth of the industrial sector, the contribution of manufactured exports to total exports and the inflow of foreign investments has clearly outstripped that of its ASEAN neighbours and led to widespread predictions that it will be the first of the Southeast Asian countries to genuinely enter the ranks of the NICs.[19] Such success has been politically facilitated by the relationship between state and capital, and by the emergence of a vigorous domestic capitalist class which established a dominant position in capital ownership and moved strongly into export oriented production in the late 1970s.

In the 1950s, under the rule of General Phibun, growth in the Thai economy was promoted through a myriad of state enterprises established under a broad but uncoordinated set of policies encouraging industrial investments. With the emergence of the Sarit regime in 1958, state investment was largely relegated to the provision of infrastructure while the emphasis on industrial corporate investment switched to the private sector and policy shifted strongly to ISI to counter balance of payments problems. Despite increasing inflows of foreign investment and loans, domestic fixed capital formation remained the dominant factor in the expansion of investment and production. Most important, the ISI period was one in which Thai industrial and finance capital achieved economic dominance over domestic trading capital and therefore provided a powerful political power base for the protectionist position in the struggle with free traders.[20]

Nevertheless ISI began to encounter problems of excess capacity as the market became saturated in the late 1960s. Although strong pressure to retain the apparatus of ISI came from nationalists and populists within the military, manufacturers and labour, powerful new industrial and banking conglomerates had emerged in this period and were anxious to expand their markets. They now began to agitate for the introduction of policies facilitating EOI whilst retaining the protective apparatus of ISI in selected areas. In 1972 the government responded and a programme of export incentives was built into a new Investment Promotion Act. The 1970s became a period of strong development of domestic capital characterised by unprecedented

expansion of manufacturing output for both domestic and overseas markets.[21]

With the second oil shock of 1979, the Thai economy entered a period of recession experiencing increasing debt, budget and balance of payments deficits. During this period the IMF/IBRD began to exert greater influence as their role in alleviating debt and capital formation problems grew. Loans from these bodies now carried conditionality which included requirements for structural adjustment: reduction of levels of protection, devaluation and deregulating prices. Whereas Thailand had been pursuing concurrent policies of ISI and EOI the free-market reformers in the IBRD/IMF and the bureaucracy wanted the protected ISI component eliminated and EOI to proceed on the basis of free-market strategies.[22]

The policy response of the Thai government must be seen in the context of the changing structures of domestic political and social power as well as the changing structures of the world economy. Since the fall of Thanom (and the Sarit legacy) in 1973, the military had never regained the same level of unity or political dominance despite its overthrow of the civilian government in 1976 and the succeeding regime in 1977. In effect, the military became a veto factor in politics rather than setting the agenda. Hence, governments became shifting coalitions of parties in which factions of Bangkok-based capital and elements of the military became the dominant influences.[23]

In the late 1970s and the 1980s, industrialists in the Chart Thai party and nationalist/populist elements in the military opposed the terms of the IMF/IBRD loans and calls for devaluation while powerful sections of the bureaucracy in the Bank of Thailand and the Ministry of Finance together with leading figures from the major financial and industrial corporate groups and the dominant Social Action Party supported much of the deregulatory thrust of their advice.

As complex coalitions of interests, the various Thai governments have been able to reconstitute a broad strategy in the mid-1980s which embodies elements of ISI, industrial deepening, state coordinated EOI and deregulation policies. Economic strategy has not taken a clear, single direction but constitutes a continuing battleground. While reduction and regularisation of tariffs has taken place[24] several industries, including automobiles, furniture and banks continue to enjoy protection as well as being leading performers in the drive to export. The capacity to resist the IMF/IBRD has come from Thailand's success in obtaining cheaper alternative loans,[25] the improvement in the balance of payments position which followed the collapse of oil prices in 1986 and the surge of Japanese investment into Thailand which accompanied the continuing upward spiral of the yen.[26] Most important, it has been the strength of domestic industrial and finance capital and the successful export performance, particularly of the textile, plastics and components industries, which has enabled Thailand to press ahead with its own integrated strategies. As we shall see, other Southeast Asian economies being more reliant on commodity exports were hard hit by the collapse of commodity prices and debt problems and

unable to adequately compensate with manufactured exports. Loans and aid from IMF/IBRD consequently became a more important factor for them.

Apart from the strength of domestic capital, Japanese and Taiwanese investment has been drawn to Thailand both as a new export production base for electronics, semiconductors, engineering components and other manufactures driven out of the home sites by rising currency values, and as a new and burgeoning market.[27] They have seen Thailand's combination of low wages and production costs, together with a workable infrastructure and political stability, as constituting the most attractive site for investment in the region. Interestingly, it has been Japanese financial support for the East Coast petrochemical projects which has enabled it to proceed in spite of IMF/IBRD opposition to this deliberate, state-led attempt to create a comparative advantage and an upstream industry that would require protection.[28] Recently, big domestic investors have embraced these projects, a position they seemed reluctant to take earlier.

While other Southeast Asian countries became caught in ISI or foundered in industrial deepening because the interests of state bureaucrats and state and private capital had become embedded in the networks of protection and monopoly this did not occur in Thailand to the same extent. Powerful financial industrial corporate groups, including the Bangkok Bank Group, Siam Cement Co, Thai Farmers and Charoen Pokphan, not to mention the Crown Properties Group, had built their empires in the ISI period to a stage where they were able to compete and survive in international markets.[29] Whilst the Thai state was subjected to pressure from a variety of social forces, including populist elements calling for the maintenance of protective ISI strategies, these large industrial/financial corporate conglomerates proved to be the most powerful, organised and consistent and their interest lay in expanding beyond the domestic market.

Malaysia

After the granting of independence in 1957 the new political rulers and policy-makers of Malaysia introduced tentative policies to reduce the country's dependence upon agricultural exports by developing the import substitution manufacturing sector. By the end of 1968 manufacturing represented 12.7% of GNP. However, in the late 1960s two developments were to change the course of Malaysian economic policy. First, ISI had saturated the local market and had failed to generate expected growth in output and employment, a situation which prompted moves towards export-oriented manufacture, especially in low-wage sectors such as textiles and electronics. This was facilitated by the introduction of various export incentives and the establishment of free trade zones which gave access to tariff, taxation and labour cost advantages.[30]

The second development concerned the explosion of racial tensions resulting in extensive rioting in Kuala Lumpur in 1969 which was interpreted by the government to be the result of economic imbalances between the races. These

developments led to the introduction of a new economic policy (NEP); a set of principles and objectives to be implemented in a series of five year plans through the 1970s and 1980s. The major objective of the NEP was to lift the level of Malay economic participation and equity ownership and this was to be achieved by introducing requirements for Malay equity in all investments and preference for Malay capitalists in credit and government contracts. In 1971 share capital ownership stood at 2.4% (Malays) 34.3% (Non-Malays) and 63.3% (foreign) and the NEP intended to change this to 30%, 40%, 30% by 1990.

The response to these two crises must be understood in the context of the strict separation of political and economic power which prevailed in Malaysia. A Malay political elite, drawn largely from a dispossessed feudal ruling class and building its power base in state apparatus, was substantially integrated with the apparatus of the dominant Malay political party UMNO. In contrast, the domestic capitalist class and particularly the larger corporate capitalists were predominantly Chinese, adding a racial dimension to the division. The capacity of the state to pursue economic policies independent from domestic capital (in the short term at least) was ensured by increasing revenues from oil and gas production, access to the flood of cheap loans which hit international finance markets in the 1970s and the success of the state in entering joint ventures with foreign investors.

The NEP also created vast opportunities for the Malay political elite to build new dimensions to its power base by entering the world of corporate capitalism. Requirements that non-Malay domestic investors and foreign investors include Malay shareholders ensured a place for Malay capitalists while state banks guaranteed access to finance and state equity holding institutions sought to build investment portfolios on behalf of Malays with the intention of transferring these to private Malay investors. By 1985, Malay capital equity had risen from 1% of total private share ownership in 1969 to 17.8% of which trusts operating on behalf of Malay shareholders held 7.7% and individual Malays 10.1%.[31] These new Malay capitalists were drawn overwhelmingly from the royal families and the political/bureaucratic elites. In particular the emergence of state sponsored enterprises such as the Majlis Amanah Rakyat (MARA), the Bank Bumiputera and its subsidiaries, Pernas, Permodalan Nasional Berhad (PNB), Amanah Saham Nasional (ASN) and Makuwasa Securities provided an institutional framework in which the boundaries between public power and private wealth were to become blurred.[32]

The election of Prime Minister Mahathir in 1981 heralded new directions for economic strategy. His celebrated "Look East" policy was essentially a call to look to Japan and Korea rather than the West as the inspiration for development strategy. At its broadest the new policy called for social discipline, industry-based unions, new attitudes towards work and cooperative endeavour and the establishment of new economic institutions such as trading companies similar to Japan's *sogo shoshas*. More specifically, Mahathir aimed to emulate the pattern of Japanese and

Korean development which rested firmly upon a broad industrial base established as a consequence of planned state intervention. Using the state-owned Heavy Industries Corporation of Malaysia (HICOM) Mahathir injected large state investments into a variety of industrial projects including iron and steel, cement, fertilisers and automobiles.[33]

Increasingly, however, pressure began to mount for quite a different development strategy, fundamentally challenging Mahathir's "Look East" approach and the path taken by the East Asian NICs. Presented by the IBRD and by free market elements in the Malaysian State bureaucracy, such policies urged a reduction of state involvement in the economy, an increase in free-trade and free market measures, a relaxation of controls on foreign investment and an ending of policies to build heavy industries where they contravened notions of comparative advantage. The 1984 Mid-Term Report of the Fourth Malaysian Plan called for a 57% reduction in state development expenditure and in 1985 an IBRD/UNDP report recommended limits on infant industry assistance and significant changes to the tariff structure.[34] However, the most significant policy statement was made in the Industrial Master Plan (IMP) of 1988 which called for industry rationalization, especially in the heavy industry sector and recommending a retreat from the large investments made in the automobile and steel industries. The report concluded that the commitment to EOI in the NEP was more illusory than real, tariff and other forms of protection for ISI remained at high levels, the export activities of the EPZ's were low in value-added and focused heavily upon assembly industries, particularly electronics.[35]

Free-market reform, however, was clearly contrary to the interests of two major groups: Mahathir and the economic nationalist policy-makers who saw an integrated industrial base as essential to independent and self sustaining development, and those elements of the Malay political elite, both officials and capitalists, whose economic power and wealth was embedded in the protective polices of the NEP and the intervention of the state on their behalf.

Nevertheless, market-oriented policies were increasingly imposed on the government not as a consequence of the political power of forces which supported them but by economic crisis which reduced the capacity of the state to continue financing the costs of the NEP and the national strategy of industrialization. High commodity prices and cheap loans in the 1970s and early 1980s had minimised the pressures for restructuring and in the recession of 1981-82, the state had been able to reflate the economy by pumping in large amounts of investment funds. Development expenditure had reached 58% of GNP a year in 1981.[36] From this time, however, the state was increasingly beset by debt and revenue difficulties exacerbated by declines in taxes obtained from the oil sector which had reached 23% of all tax and non-tax revenues in 1984.[37] Public sector debt jumped from M$ 11,349 million in 1981 to M$ 30,199 million in 1985, from 21% to 41% of GNP. Between 1986 and 1987 the broad public sector deficit widened from M$ 9.4 billion (14.2%

of GNP) to M$ 12.4 billion (17.7% GNP).[38] When the recession of 1985/86 arrived the government could no longer simply borrow its way out of trouble. In 1986 it was forced to cut development expenditure to M$ 13.6 billion, substantially down from M$18.7 billion in 1982.[39]

These developments clearly reduced the capacity of the state to continue the high levels of financing for the heavy industry strategy. However the problems of heavy industry extended far beyond the fiscal difficulties of the state and the crisis in terms of trade. As Bowie points out, HICOM was largely insulated from the budget cuts yet most of the HICOM ventures sustained serious losses in their first years of operation and proved unable to expand their markets by export.[40] Most important, private domestic investment had not played a major role in industrial investment as hoped by Mahathir. His policies of privatisation and Malaysia Incorporated had been predicated upon the increasing capacity of the private sector to lift the burden of investment and production from the government's shoulders within the framework of structured cooperation between state and capital on the Japanese and Korean models. On the contrary, private investment fell from 62.6% of total investment in 1980 to 50.4% in 1985.[41] Chinese capital had been generally constrained by the NEP and Chinese investors were not encouraged to play a major role in the HICOM projects which were seen as the entry point for Malay capital to counterbalance traditional Chinese dominance in trade although it turned out to be foreign capital that supported the state in this area.[42] In fact, the establishment of the Proton Saga car project damaged existing domestic (Chinese) investors in the industry[43] and the increased activity by Japanese construction companies following the "look east" policy also damaged local Chinese contractors. Increasing insecurity reflected itself in capital flight by Chinese investors which was estimated at US$ 2.3 billion in 1987 continuing a long-standing trend. Non-bumiputra investment in manufacturing fell from M$ 1.02 billion in 1984 to M$ 328 million in 1987.

Most important, the attempt to create a Malay capitalist class based in the industrial sector had clearly failed. Malay enterprises, private, state and trust had been characterised by poor performance on a wide scale, many of them dogged by corruption scandals and allegations of mismanagement, the Bank Bumiputra and the Malay Soga Sosha, MOIC being only the most spectacular cases.[44] Drawn from the political and bureaucratic elites, the new Malay capitalists focused upon manipulation of networks of patronage rather than management, investment and production as the instruments for business success. This view was shared not only by external critics but by semi-official think tanks charged with redirecting Malaysia's economic strategy after the recession of the mid-1980s and its aftermath. For example, the Malaysian Institute of Economic Research claimed that the NEC had simply produced a rentier entrepreneurial class—"a narrow band of tycoons living off investments who went bust when the recession hit the country in 1985."[45]

In contrast to the leading elements of the Thai capitalist class which had played an important role in expanding EOI in Thailand, and felt sufficiently confident to

respond positively but selectively to IMF proposals for deregulation, the leading elements of the Malaysian capitalist class, the Chinese, were unable to constitute themselves as a bourgeoisie in the full social and political sense. As we have seen, Chinese capital was apprehensive of its future, despite the fact that some of the leading Chinese business groups had flourished under the NEP and UMNO leadership. On the other hand, the putative Malay capitalist class, reliant upon state imposed economic and political privilege proved unable to play a constructive or significant role in the process of capital formation.

With the push into industrialization frustrated, important political divisions began to open up over the question of the direction of economic and political change that threatened the very basis of the NEP. Mahathir found that attempts to artificially construct a Malay capitalist class increasingly contradicted the objectives of economic growth and industrialization. In particular, the political and economic resources pumped into the embryonic Malay capitalist class were not producing returns in the form of effective industrial corporations prepared to make investments in manufacture.

Mahathir was therefore forced to turn to foreign capital to supply the investment needed. Because of domestic equity requirements and other controls, foreign investment had dropped to 25.5% of the total in 1985, well below the 1990 NEP target of 30%. Mahathir announced in 1986 that in the difficult circumstances the achievement of capital ownership targets for the different groups would take second place to the provision of employment and the regeneration of growth. Provisions regarding bumiputra equity were to be modified and tariff levels lowered.[46] The government was also under pressure to implement the IMP recommendations to rationalize the automobile, iron and steel sectors although these were modified to defer restructuring in view of the prevailing financial weakness of local auto assemblers and success of steel manufacturers in raising export production. Indeed, new steel making ventures were being undertaken with Japanese investment.[47]

A second conflict concerned the question of the regularisation of the state apparatus and established a split between those members of the Malay political and bureaucratic elite favouring highly centralised and regularised state activities and those concerned with maintaining the existing forms of political mediation of business opportunities offered by the NEP and thereby favouring the continuation of a system in which the spheres of public power and private wealth were blurred and merged.[48] For the government, the political dictates of building Malay economic power had forced them into a reliance on the weakest element of capital and placed obstacles in the way of an alliance between the state and the most effective elements; Chinese and foreign.

Indonesia

Indonesia emerged from 300 years of Dutch colonial rule without either a landowning or capital owning class of sufficient dominance or cohesion to assert political

authority. In the first decade of independence, shifting coalitions of fragmented political parties failed to grapple with the problems of a declining agrarian export economy and by the mid-1950s increasing political chaos and corruption presided over accelerating economic disintegration. In this vacuum it was left to the officials of the state apparatus itself, both civilian and military, to seize power, and in the process, create a distinct and politically dominant estate of politico-bureaucrats, integrating political power and bureaucratic authority.

The same vacuum existed at the economic level. Foreign capital was expropriated in the late 1950s and early 1960s, leaving only a domestic petty bourgeoisie located primarily in the sector of trade. Consequently, in the period 1960-65 under Sukarno, the state became the major investor in a planned economy designed to achieve a broad national industrial base in heavy industry. Indonesia had moved from a colonial agrarian export economy directly into a strategy of state-led industrial deepening. By 1965 the strategy had collapsed. The new state corporations proved to be generally inefficient and the few client capitalists who emerged under state patronage proved to be more interested in speculation than productive investment. Inflation had reached over 600% in 1965, the infrastructure was rapidly decaying and foreign earnings fell below debt servicing obligations.[49] At the same time the forces of the Left were making a serious challenge for political leadership.

The major elements of the politico-bureaucrats, led by the military and their allies in the middle classes, felt it necessary to secure their position by ending the political challenge of the Left and by moving to stabilize the economy. Consequently, the counter-revolution of 1965 involved not only the elimination of the PKI and the ousting of Sukarno, but a call to the Western industrial economies to rescue the Indonesian economy.

Between 1965 and 1975 Indonesia turned to a strategy of ISI financed largely by foreign aid and loans and in which private investment, both foreign and domestic, was to play an important role.[50] During this period a significant domestic capitalist class emerged, nurtured by the state within a system of trade monopolies, manufacturing licences, domestic equity requirements for foreign investors, preferential allocation of state credit and contracts. These emerging capitalists and their corporate groups were closely tied to patrons within the state apparatus who themselves increasingly became capital owners. The full power of such an alliance was limited in social terms by the fact that the majority of the large domestic capitalists were Chinese and not able to play a leading and public role in political life. Nevertheless major bureaucratic capitalist families, including the Suhartos and the Sutowos, emerged in this period to constitute the potential basis for a new and cohesive Indonesian ruling class.[51]

In the mid-1970s the ISI phase, focused on the production of consumer goods for the domestic market, began to confront the sorts of problems which had typically confronted such strategies, particularly saturation of the domestic market. The response of the government was to move into a phase of industrial deepening: the

establishment of capital and intermediate goods industries in steel, petrochemicals, paper, cement, engineering and metal processing intended to stimulate the economy through creation of backward and forward linkages in production.[52] Why was this policy chosen rather than one which sought integration with the world economy on the basis of comparative advantage? First, few of the consumer goods industries already developed under ISI could make the transition to EOI or could survive if exposed to international competition, in either domestic or international markets, by the removal of the apparatus of protection. Second, the introduction of a free market and the removal of the labyrinth of state control and regulation; monopolies, licences etc, would remove the power of the state and its officials to determine success or failure in the corporate sphere and therefore eliminate much of their power. This factor became increasingly entangled with the involvement of bureaucrat families in corporate capitalism as owners of capital rather than simply fixers and collectors. Third, the vision of a self-sustaining industrial base for the Indonesian economy remained the dominant plank of nationalist ideology and with the rapid growth of a tax revenue base in the oil industry as oil prices began their rapid decade of ascent, the resources to achieve these nationalist goals were available.[53]

The most intensive phase of industrial deepening extended from the mid-1970s to the early 1980s. Oil money financed massive state investments in steel, petrochemicals, cement, metal fabrication and engineering and made possible the beginning of high technology industries in aeronautics and shipbuilding. With oil and gas guaranteeing foreign earnings, little emphasis was placed upon the development of manufactured exports and the new capital and intermediate goods industries were intended to integrate with existing import substitution production. Foreign investment was subjected to regulations limiting it to sectors which were targeted for special development and where domestic state or private investment was either unwilling or unable to operate. In contrast, domestic capital, both state and private, grew rapidly. The major, state funded industrial projects provided opportunities for contracts and suppliers of manufactured inputs. A heavily protected, largely privately owned, automobile and components industry expanded from the assembly of imported kits in the 1960s to manufacture of bodies, components and engines by the mid 1980s. Importers continued to find lucrative opportunities within the system of monopolies, quotas and tariffs.

In 1981/82 the price of oil dropped to $28 and in early 1986 tumbled dramatically to below $15 where it has largely remained. This has had several consequences. The capacity of the state to generate domestic capital accumulation has been seriously reduced while domestic private capital has proven unable to fill the void and foreign investors have not been prepared to invest in sectors open to them under the existing strategy.[54] This was combined with balance of payments difficulties and increasing debt. At the end of 1987 debt reached US$47 billion and debt servicing required 35% of export earnings.[55] Clearly Indonesia needed new sources of investment funding, new sources of export earning and new sources of

budget revenues.

In political terms the growing reliance on aid and loans has increased the influence of the IMF/IBRD and potential foreign corporate investors. World Bank Reports, particularly since 1981, have consistently argued for deregulation, liberalization of trade, minimization of state involvement in the economy and restructuring of the economy towards EOI.[56] These proposed changes directly challenge the position of the economic nationalists amongst economic planners and state managers of capital as well as that of capitalists who operate within the protective structures built around ISI and industrial deepening. The proposed reforms also directly challenge the power of the politico-bureaucrat by threatening removal of much of the regulatory machinery through which they controlled access to economic activity.

It was not only politico-bureaucrat power that was threatened. The substantial class of domestic capitalists, both Chinese and indigenous, that had been nurtured under the New Order remained highly dependent upon the state, not only for protection against competition and access to monopoly position but upon its capacity to generate economic growth through investment. The major corporate groups crowded around the major, largely government-funded industrial projects as contractors and suppliers. In the few cases where domestic capitalists were lured into investment in heavy industry the government underpinned such intervention. For example, in Liem Sioe Liong's celebrated investment in the cold rolled steel plant the government provided the bulk of investment finance and gave Liem import monopolies on products potentially competitive.[57] With such guarantees the impulse for Indonesian, manufacturers to export in order to maintain accumulation was weak. Industrial exports have been dominated by plywood[58] and in the few cases where Indonesian capitalists have invested overseas it has been primarily in property, banking and trade.

Despite the political power of those forces with interests embedded in the continuation of ISI and industrial deepening, they could not fully resist the pressures for structural change where the broader viability of the Indonesian economy was threatened. Consequently, significant reductions have been made in the programme of state funded major industrial projects.[59] Important moves were made to facilitate export competitiveness including reform of the Customs Service which was an important base of bureaucratic power but one which added substantially to the cost and time involved in importing and exporting. The high cost of imports resulting from corruption, tariffs and monopolies not only kept production costs high in potential export industries but imposed significant costs on domestic downstream producers foundering in a declining domestic market hit by recession. A significant split developed over the question of import monopolies between politically connected importers and downstream manufacturers often with less access to the networks of patronage. The combination of pressures resulted in an important series of reforms beginning in May 1986 which significantly reduced the extent of tariffs,

quotas and sole importers licenses which had kept the cost of production high although a strategic core of lucrative sole importer monopolies in the hands of influential families and business groups remains intact.[60] The reforms have also freed up the banking sector, opened up sectors for foreign investors, relaxing local equity requirements and allowing greater participation in domestic distribution.

Recent changes in Cabinet and the Ministries have seen the emergence of Ministers and officials more sympathetic to free markets, deregulation and the reduction of the public sector through privatisation. However, important centres of economic nationalist power remain, particularly in the State Secretariat and the Ministry of Research and Technology, both of which have received significant backing from Suharto. The strength of these elements lies in the ideological position they represent, which has a deep legitimacy in Indonesian political life and perhaps more importantly in the fact that the power of the dominant political and economic groups is embedded in the policies of economic nationalism and industrial deepening. On the other hand, the strength of the free-market reformers lies in the short-term fiscal crisis of the state and low oil prices and in the longer term success of restructuring, particularly in the capacity to penetrate international markets with manufactured exports.

Philippines

Of all the Southeast Asian nations it is in the Philippines that social and economic power has most clearly been located outside the state, and that powerful social forces have wielded greatest political influence and authority. The legacy of Spanish and American colonialism was a dominant class of landowning families involved in the production of export crops and presiding over political life through pervasive networks of patronage and coercion. From independence in 1946 to Marcos' institution of martial law in 1972, they exercised formal power through Congress and the two major political parties which were little more than competing coalitions of factions from within the one ruling class.

In the 1950s and 1960s import substitution manufacturing developed rapidly, lifting the manufacturing sector's contribution to GDP from 10.7% in 1948 to 17.9% in 1971. Although many of the new industrial capitalists were drawn from the major landowning families, conflict between agricultural exporters and import substitution manufacturers developed within Congress and the parties. The former were particularly damaged by the chronic overvaluation of the currency in this period and by high tariff levels.[61]

By the end of the 1960s, ISI in the Philippines encountered the problems typical to this form of manufacture: inflation, balance of payments problems, market saturation and endemic corruption. Whereas in South Korea and Taiwan the state stepped in to play a major role in orchestrating a strategy combining ISI, EOI and industrial deepening, the situation was allowed to drift by in the Philippines. As commodity prices and the terms of trade deteriorated the government borrowed to

subsidize the continuation of ISI. The inevitable and deepening debt resulted in the intervention of the IMF and the IBRD in the 1970s and 1980s. In return for financial assistance they made demands for broad structural adjustment but although the Marcos regime undertook regular, substantial currency devaluations and established Export Processing Zones (EPZ), the broad character of the economy remained one of ISI in consumer goods under state protection and monopoly combined with the export of primary products.

However, the balance of political and economic power was fundamentally altered by the establishment of Martial Law in 1972. The dissolution of the parties and Congress was augmented by the establishment of a strong state apparatus, seriously damaging the power of the landed families. Control over allocation of state funds formerly held by Congress and the parties, was largely transferred to the national Economic Development Agency (NEDA) thus bypassing the networks of patronage which sustained the power of the landed families. Most important, significant power now resided in the hands of the state bureaucrats, technocrats, the military, the state sponsored KBL party and other front organisations. An estate of bureaucrats with power resting in the state apparatus had now emerged.[62]

Between 1972 and the end of the decade, the Marcos government had relied on foreign borrowings to patch the haemmorhaging economy. The second oil shock and the accelerated collapse of agricultural commodity prices precipitated a crisis in external debt and the budget deficit which could not be rectified by further borrowing. Total public sector debt rose from 13.1% of GNP in 1976 to 61% in 1983.[63] In 1984, the Philippines total debt stood at US$26 billion or 80% of GNP and the total debt stood at 32% of total exports reflecting a situation considerably worse than any other ASEAN country and one which was rapidly moving beyond the capacity of the Philippine government to handle.[64] This problem was exacerbated by endemic capital flight which had reached a cumulative figure of US$4.2 billion in 1983 to which another US$ 2 billion was added in 1984, spurred by the Aquino assassination.[65] Despite these problems, Marcos announced plans to develop 11 major industrial projects in the late 1970s and continued to subsidize the EPZ's, and to finance the losses of state corporations and business cronies.

By the early 1980s a three way conflict had developed over economic strategy. The IMF/IBRD, now in a stronger position as a result of the debt crisis, were able to impose conditions upon the US$1503 million in loans they advanced in 1983/4. These included devaluation of the Peso, reduction in tariffs, import controls and government expenditure.[66] These policies struck at the interests of powerful capitalists who had emerged under state patronage and were known popularly as the Marcos cronies. Building their corporate empires upon state facilitated monopolies in the commodity export sector, privileged access to bank credit and government contracts, the cronies established hegemony over sugar and coconut production and export, automobile imports, assembly and manufacture, construction, banking and the press.[67] The cronies were, in an important sense, the capitalist wedge of a newly

forming ruling class which included state officials, political allies of Marcos and some elements of the old landed elites. However, the advance of the cronies was undermined by a series of spectacular failures and growing financial difficulties and by the decreasing capacity of the state to sustain or rescue them. As the Marcos regime collapsed so did the "fictitious" capital upon which these business empires had been built. Much of the wealth of this group left the country in the years leading up to Marcos' own departure. The resources poured into the creation of a group of major capitalists left behind no powerful bourgeoisie able to constitute the engine of capital formation.

A third force in the debate was constituted by the Makati capitalists who had evolved out of the ISI period and who objected to the closed system of state-crony relationships which excluded them from access to a wide range of investment activities and exposed them to confiscation and take-over. They were equally threatened by the free market policies of the IMF/IBRD intended to dismantle the system of protective tariffs which kept import substitution industries afloat. In particular the strict limitations imposed on allocations of foreign exchange for imports and the reductions in government expenditure resulted in an epidemic of business failures. In the closing years of the Marcos period the Makati capitalists became increasingly associated with radical and nationalist groups in calls for an end to the Marcos regime, resistance to the policies of the IMF/IBRD and for a reconstitution of import substitution strategies including industrial deepening.[68]

Although the fall of Marcos and the emergence of the Aquino government promised a new era, the long-term implications for economic strategy are as yet unclear. The Makati ISI capitalists continue to oppose the IMF/IBRD strategy but their position is weakened by low domestic demand, deteriorating and outdated capital stock and difficulties in achieving new capital formation. Transformation from import substitution to export orientation is proving difficult because low labour costs are offset by poor quality and low productivity. Depressed conditions in the manufacturing sector including declining value added and chronic plant overcapacity continued through 1985 and 1986. At the political level the alliance of national capital with a broad nationalist and radical front appear to have disintegrated with the achievement of their immediate objective: the fall of Marcos. In contrast, the IMF/IBRD have been successful in imposing at least some import liberalization, privatization, a shift of investment focus to export-oriented and low-wage, light industries as well as reductions in government investment and intervention.[69] The intention of such policies is to provide incentives for foreign investors, lower costs for domestic industrialists to establish opportunities for comparative advantage to be developed.

However, old centres of power persist and with them the pressures for state intervention on behalf of their economic interests. Whilst the reemergence of many of the landed families excluded by Marcos has been a feature of the early years of the Aquino era, the bureaucrat capitalist alliance within the corporatist structures of

the Marcos state has become an entrenched structural feature of Philippine society. Already, under Aquino we are seeing the reemergence of cronies—albeit largely a new set of faces. This alliance of state and capital is one inherently opposed to the free-market prescriptions of the IMF/IBRD.

Conclusion

All four Southeast Asian economies in this study experienced a period of rapid ISI growth leading into industrial deepening in the 1960s and 1970s just as Taiwan and South Korea had a decade earlier. In the latter cases, however, the political environment, in combination with other factors, enabled the existing import substitution industries to be extended, or deepened, into the capital and intermediate goods sectors and thence into export of manufactures. This process was politically facilitated by the following factors.

a) The development by the state of a long-term plan for industrialization and its capacity to coordinate and finance investment either through public enterprises or by private capital.

b) The political capacity of the state to override those forces whose interests remained entrenched in earlier phases of ISI or in pre-industrial economic activities.

c) The substantial regularisation of the state apparatus and its relationships with capital, laying the basis for effective, policy-oriented state intervention in the economy.

d) The successful development, within structures of protection and co-ordination provided by the state, of a domestic capitalist class whose interests were embedded in manufacturing and which was able to compete in both domestic and international markets in progressively higher value added areas of manufacturing.

All of the Southeast Asian countries under examination here attempted to build an industrial base in the 1970s. This was largely made possible by a surge in revenues form oil and gas, minerals and/or agricultural exports as well as access to loan funds which enabled the state to play the leading role. However this process received a severe check in the mid-1980s leaving an incomplete and internationally uncompetitive industrial structure. The states found themselves with projects they could no longer afford and were forced to postpone or cancel.

Thailand differed somewhat from this pattern for two reasons. Whereas the boom in oil and gas prices in the 1970s had bolstered state revenues and foreign exchange reserves in Indonesia and Malaysia they had the reverse effect upon Thailand and confirmed the need to develop a manufacturing export sector. Within this environment the leading sectors of the capitalist class, the Bangkok banking and industrial corporate groups were more successful in establishing a stronger and more independent industrial corporate base. With the fragmentation of military dominance of the state they also began to accumulate greater social and political power. Their success may also be related to the relative absence of that racially based separation of economic and political power which existed in Malaysia and

Indonesia. When the collapse of commodity prices came, only Thailand found itself with a manufacturing export sector sufficiently developed to enable it to avoid endemic balance of payments and revenue crises.

When the crisis came for the Philippines, Indonesia and Malaysia, the respective states found themselves less able to continue their leading roles as investor and the attempt to build an industrial base began to founder. It could be said that the reason for this was the result of the collapse of commodity prices or the emergence of a debt crisis at a time when the industrialization process was only partially completed. The question is, however, why after a decade of investment and protection did the industrial sector continue to be highly dependent upon state investment which was in turn dependent upon a continuing flow of resource-generated revenue or loans. Private domestic investment, insofar as it had been lured out of trade and services and the import substitution consumer goods sector, were heavily integrated into and dependent upon state funded projects and the monopolies and contracts which surrounded these. They had developed little capacity to maintain the momentum of industrial investment independent of the state.

The consequent need for sources of investment finance other than state revenues and borrowings led in two directions: to the IMF/IBRD, and to private corporate investment from overseas. The IMF/IBRD route posed a fundamental threat to strategies of industrial deepening and to the economic and social interests embedded in them because it insisted upon policies of reduced state intervention and increased deregulation of the economy. Within the IMF/IBRD schema industrialization was to focus upon industries with an existing comparative advantage such as the processing of primary products and manufacturing processes which exploited the comparative advantage in low wages. Costly and inefficient excursions into steel and automobile industries became primary targets for criticism as did the networks of monopoly and patronage which bound political and bureaucratic power-holders and many traders and industrialists to the prevailing ISI strategies.

Until recently private foreign investment offered only limited prospect of assistance for national governments struggling to create integrated industrial bases. Their main interest was in industrial investments behind tariff barriers directed towards the domestic markets for consumer goods and/or exploiting the advantage of cheap labour for exports. Hence the predominance of initial investments in textiles and electronics for export and in foodstuffs and beverages, automobiles and pharmaceuticals for the domestic markets. Recently, however, the continuing surge of manufacturing trade surpluses in Japan combined with the strength of the Yen and the chronic surfeit of investment capital has forced the Japanese into a more thoroughgoing internationalization of investment; a restructuring that threatens to incorporate the economies of Southeast Asia into a logic determined within the Japanese economy. It is a logic which derives not from abstract notions of existing relationships of comparative advantage but from Japan's need to restructure its industrial base on an international scale involving the creation of new comparative

advantages, particularly in resource processing industries in metals and petrochemicals in the region. It has been Japanese capital, for example, that has made possible the petrochemical investments in Thailand's East Coast industrial development project and the new ventures in steel manufacture in both Indonesia and Malaysia, both so strongly opposed by the IMF/IBRD. Unlike earlier Japanese manufacturing investment that simply sought shelter behind tariff walls, the new wave of investments is intended to extend the Japanese position in the NIDL and are therefore targeted not only at internal and regional markets but at producing value added inputs for Japanese industry and finished goods for the world markets.[70]

In several important senses the region is entering a new era. The capacity of the state to finance and coordinate the development of national industrial bases has been severely curtailed although we should not dismiss its continuing influence as illustrated by its success in persisting with key industrial and technological projects in Thailand, Indonesia and Malaysia after the balance of payments, debt and revenue problems emerged. Nor should we assume that these governments have been driven, without recourse, into the arms of the IMF/IBRD and that the plans for integrated industrial bases will be replaced by niches of industrial comparative advantage in response to market forces. Japanese, and to a lesser extent, European companies have been increasingly eager to invest in heavy industrial projects such as steel, petrochemicals and automobiles either to gain contracts for the supply of technology, to provide the finance or because it now suits a rapidly shifting set of international factors which determine its own national priorities for investment.

What then can we say about the way in which patterns of class and state power relate to industrialization in Southeast Asia remembering that we are dealing with a situation where the domestic capitalist classes were weak and existed primarily in the trade and service sectors? An early observer of the Indonesian political economy, Hans Schmitt[71] proposed, in effect, that capitalist development would only occur when the holders of political and social power have an immediate vested interest in capital accumulation or, conversely, when the capitalist class held power: a kind of instrumentalist bourgeoisie rule. The problem, however, is more complex than that and the experience of the Southeast Asian nations would suggest that a direct and instrumental relationship between a specific element of the capitalist class and the state has in fact damaged the long term interests of industrial capitalism. It is significant that in all four cases under study an estate of bureaucrat capitalists embodying political power, bureaucratic authority and capital ownership has wielded a substantial hegemony over state power. In Indonesia bureaucrat capitalists based within the military and the wider state apparatus established economic bases for themselves and their families, first as rent seekers extracting tolls from capitalist activity and subsequently as direct equity-holders. In the Philippines we find a similar estate based upon the major landed families merging into state and party hierarchies and dominating the export monopolies, property and sections of import substitution industries. In Malaysia, royal families and party and

state elites moved into corporate capitalism under the auspices of the NEP. In Thailand, similar integration of political power and capital ownership occurred although in a more fragmented manner. In all cases state managers of capital often constituted an integral part of these networks of power.

This instrumental relationship between a particular element of capital and the state and party elites, embodied in one complex socio-political amalgam had the general effect of creating a tension between long-term industrial development and the short term advantages for the bureaucrat capitalists and their clients for perpetuating ISI. Here the need for efficiency and competitiveness was offset by the capacity of the state to pump in endless streams of finance and to protect it against outside competition. Expropriation of the resources and authority of the state and the establishment of networks of monopolies and patronage subverted infant industries policies and made the manipulation of these networks, rather than the solution of problems of production, organisation and management, the keys to success for capitalist activity. While many did well out of these alliances, feeding off the contracts for supply and construction, holding monopolies on the import of raw material or capital goods inputs and obtaining joint venture partnerships on the basis of their political resources and access, the creation of a competitive industrial base tended not to be a byproduct. Political tensions developed between the bureaucrat capitalists, other foreign and domestic investors obstructed by the networks of state intervention and state technocrats committed to regularised administration of industrial strategies.

While such instrumental relationships between state and capital clearly existed in Korea and Taiwan, they did so, from the 1960s, to a much lesser degree. The state apparatus enjoyed a greater instrumental autonomy from capital, the state functioning to facilitate the development of those firms and sections of capital considered most able to effect the objectives of industrial policy. The influence of capital over the state was largely structural in nature, deriving from its critical position as the emerging engine of economic growth and industrialization. While the state possessed the autonomy to override the short-term interests of fractions and individual firms, for example by raising wage levels and permitting labour reform and forcing investors out of low-value added production, planners and politicians had always to be wary of the risk of provoking capital flight from long-term domestic industrial investment.

With recent revenue and debt crises, the consequent need to develop internationally competitive industries able to generate non-resource foreign earnings and compete with imported goods as well as the need to seek alternative sources of investment finance, we are witnessing a major structural threat to the continued hegemony of bureaucrat capitalists in the region. This is evidenced by recent retreats from restrictions on foreign investment, greater encouragement of non-indigenous capitalists, the dismantling of some important monopolies and the beginnings of moves towards the regularisation of the state apparatus. Influence over policy has

shifted perceptibly to foreign investors and domestic downstream manufacturers. Whether the bureaucrat capitalists can resist the trend towards a new, structural, relationship between "state" and "capital" or whether they can make the transformation from reliance on political authority to a base of social power built upon accumulation of capital as is claimed, for example, by the Suharto family's Bimantara group,[72] is one of the most interesting and critical social and political processes taking place in the region.

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PART IV: INDONESIA AND AUSTRALIA

Chapter 8
Explaining Indonesia's Response to the Jenkins' Article: Implications for Australian-Indonesian Relations

When David Jenkins published his now celebrated piece on the financial interests of the Suharto family[1] few could have predicted the passion of the Indonesian response. Almost immediately, Minister for Research and Technology, Habibie, cancelled an important visit to Australia claiming that he was so personally upset by the articles he could not proceed with the trip.[2] Head of the Armed Forces, General Murdani, made wide-reaching criticisms of Australia. He was reported to have described the *Herald* article as an intrusion into domestic Indonesian politics akin to the Dutch paratroop attack on Jogjakarta in the Independence struggle, to have described Australian defence aid as chicken feed and to have rejected the prospect of defence co-operation in the future.[3]

Restrictions on the Australian press in Indonesia were extended, culminating in the Indonesian government's refusal to admit two Australian journalists accompanying President Reagan on his official visit to Bali. Most dramatically, the Indonesian government briefly cancelled an agreement giving visa free entry to Australian tourists, resulting in a plane load of Australians being denied entry to Bali, and forced to fly back to Australia. Other actions included a temporary freeze on talks over the Timor Gap.

Perhaps most important, the Indonesian Armed Forces newspaper *Angkatan Bersenjata (AB)*,[4] published a series of articles not only highly critical of the Jenkins article and the Australian press treatment of Indonesia but embracing a broad and fundamental attack on Australia's motives, its culture, its political system and its place in the region. It claimed specifically that Australia was a threat to Indonesia

because of its economic ties to Japan and the US, because of its activities in the Pacific region and in South-East Asia, which were calculated to isolate Indonesia, and because of its deliberate and orchestrated media campaign to discredit Indonesia internationally.

The Indonesian response showed a surprising indifference to the position of those elements within the Australian Foreign Affairs Department, the universities and the Labor Party traditionally sympathetic to the Indonesian perspective. Critics of the thrust of Australia's Indonesian policy were able to use the Indonesian response to question the value of a relationship where such a violent rupture could be provoked by one newspaper article and the effectiveness of Australian policy to this point.[5] The Indonesian action also showed little concern for the fact that Prime Minister Hawke, in confronting ALP policy on Indonesia, had taken considerable political risk in order to address Indonesian concerns about Australia's position on the question of Timor.

The questions to be asked are: why did Indonesia respond in this way? What does this response tell us about Indonesia's perception of Australia and what implications are there for the formulation of future Australian policy towards Indonesia?

Australia's Analysis of Indonesia

The formulation of Australia's policy towards Indonesia since 1972 has been dominated by elements within the Department of Foreign Affairs and the universities broadly known as the Indonesia Lobby.[6] The Lobby has given a high priority to the development of a "special relationship" with Indonesia as a means of securing our strategic and political interests in the region.

The basic assumptions underlying this approach are: a) that we are more likely to have influence over the government of Indonesia if we are considered to be friendly, sympathetic and supportive; b) that the collapse of the present Indonesian government would bring about a situation of chaos and instability in the region and prospect of an increase in the power of fundamentalist Islam, a much more frightening prospect for Australian than the present one. Therefore Australia's long term interests are best served by a policy of support and sympathy for the current Indonesian government.

The pursuit of this goal, they have argued, has been thwarted by Australian insensitivity to Indonesian culture and by entrenched interests which harbour negative, sinister and hostile attitudes based upon irrational fears of Indonesia and/or ideological antipathy to the Suharto government. "Patronising," "sanctimonious," "hypocritical," "ignorant," "racist" and "arrogant" are among the adjectives which have been used by some of those within the Indonesia Lobby to describe the attitudes of many Australians and the way they are perceived in the region.[7]

As a consequence, it is argued, Australians have not taken into account the complex, monumental economic and political problems facing Indonesia and the

cultural perspectives and values which inform Indonesian action. In particular, it is alleged that the Australian press has been consistently uninformed, negative and critical over such issues as Timor, Irian Jaya and the questions of human rights and corruption.

For the Indonesia Lobby, therefore, the Jenkins article is yet another example of this tradition of hostility and insensitivity. In the view of the Lobby, the Indonesian response is, although an over-reaction, an understandable culmination of decades of irritation and frustration. Quite apart from drawing attention to the damage that constant criticism does to our political relationship, the Lobby argues that the criticisms are not in themselves valid because they seek to impose Western cultural values on Indonesia.

At a more sophisticated level people like Peter McCawley argue that Australians must accept that Indonesian political culture produces different perspectives and we should also be aware that our own judgements have a basis in our own political culture. Similarly we should accept that many Indonesians are impatient with what they see as the erratic and unreliable nature of our political system. At its crudest level, however, this kind of analysis descends to a cultural relativism drawing heavily on psycho-cultural interpretations productive, for example, of claims that Indonesians, as a consequence of enduring cultural characteristics, have an elliptical style of communication as opposed to the directness of the West or that Indonesians feel uncomfortable with democracy and prefer strong rule to fit their dependent personalities. Needless to say, leading figures in the Indonesian government have also seized upon the concept of cultural relativism to claim immunity from criticism over such issues as human rights.[8]

These interpretations represent the continuing influence of Orientalism, a dominant theme in Western analysis of the East which reduces Eastern societies to a series of timeless, immutable and monolithic cultures. Culture is used as an explanatory tool in a manner never used to analyse Western societies, which are considered to be more complex, political, material and dynamic.[9] Whereas the West is understood through its history, the East is understood through its culture. Using culture in this sense as a basic tool for explaining Indonesian politics has two major practical problems. First, it confuses the notion of "culture" with the specific ideological expression of the social, political and economic interests of the ruling group of military and civil bureaucrats who base their power upon domination and appropriation of the state apparatus. Naturally this ideology stresses such factors as harmony, obedience, hierarchy and the avoidance of confrontation, as do the ideologies of similar authoritarian regimes in the West. In other words there is a confusion between the culture of Indonesia and the culture of authoritarianism.

The cultural approach also fails to identify the diversity of interests and ideologies which exists in Indonesia, as in any society. As much as harmony and order, Indonesian history has been characterised by conflict and confrontation, opposition and resistance. A strong revolutionary tradition has been a major theme

in modern Indonesian history, as has Islam and middle class secularism. Nor are democratic and egalitarian impulses foreign to Indonesia. Resistance to censorship and arbitrary rule has characterised both colonial and post-colonial history. These, however, are all masked by the idealised notion of an Indonesian "culture."

In theoretical terms, the concept of cultural relativism, if we carry it to its logical end, can posit nothing less than the immunity of all societies (cultures) from external criticism and even analysis. There are, in this perspective, no universal analytical tools, only culture-based value judgements.

Finally, the solutions to the existing problems in Australian-Indonesian relations possible within the terms of such an analysis can be nothing less than the ending of Australian critical scrutiny of Indonesia. The effects of this would be precisely contrary to the operation of what we regard as central pillars of our own political and information culture: free and critical research in the universities, investigative journalism (and here we must note that it is mainly the quality dailies, the *Sydney Morning Herald (SMH)* and the Age that are at question) and the freedom of political groups to express their ideas.

Rejecting the cultural analysis which has tended to underpin our assessments of Indonesian politics, and hence our official interpretation of Indonesian responses to the relationship with Australia, is not to reject culture as an important element in political behaviour. It is however, a rejection of crude cultural relativism and an insistence that culture be placed in its political and economic context.

Substance vs. Style in the Jenkins Article: The Question of Culture

Many of the interpretations of the Indonesian response to Jenkins stress the offensiveness of the article in terms of its style. Placed on the front page of the *SMH* its headlines declared "After Marcos now for the Suharto billions." It identified Mrs. Suharto by her commonly used, but derogatory, nickname "Madame Tien Per Cent" and gave details of the extensive business interests of members and associates of the Suharto family drawing attention to the state conferred monopolies that underpinned them.

Apart from drawing a comparison between Suharto and Marcos, the discredited and dispossessed former Philippine President, the article was claimed to be offensive in that it made personal charges against the leader—in contravention of the prevailing cultural norms of Indonesian social behaviour.[10] There is little doubt that Suharto is sensitive to personal attacks on himself and his family. The subject is prohibited in the domestic Indonesian press and Suharto had previously reacted angrily to claims made against the family by Indonesian journalists and students.[11] However, it is difficult to argue that Suharto is offended by personal attacks in the press any more than Australian political leaders. Perhaps the real difference is that Suharto has the power to control his press whereas his Australian counterparts do not.

This emphasis on cultural style has, however, obscured the importance of the

subject matter of the *SMH* article. The thrust of the article was that the system of monopolies and protection administered by the state has favoured the business interests of the Suharto family and its associates. Contrary to claims that corruption is a culturally relative concept and therefore not necessarily regarded with disfavour in Indonesia, it has been one of the hottest political issues in Indonesian politics since Independence. The prevalence of corruption in Indonesia is not a result of its cultural acceptance but because the structure of power has enabled officials to appropriate office with little constraint or opposition. Corruption is widely resented and when the Suharto government came to power in 1965 one of its major claims to legitimacy was its promise to bring an era of clean government after a decade and a half of corruption. Charges of corruption were a central feature of measures taken to discredit leading non-Communist figures from the Old Order.[12]

Not only is the question of corruption inextricably linked with the legitimacy of the New Order, it is an integral part of the very nature of the power exercised by the officials of the state for whom the ability to appropriate public office and its attendant power is an essential aspect of authority.

Since 1965, allegations of corruption have been one of the major weapons used by domestic critics of the regime and this has proven to be the Achilles heel of the Suharto government. In the student campaigns of 1970/71, 1973/74 and 1978 the issue of corruption was at the forefront of their critique of the government. The trials of student leader Heri Achmadi in 1978 and General Dharsono in 1986 became public platforms for attacks on the government which focused heavily upon corruption.[13] Nor has the issue been confined to middle class critics. Muslim-oriented, declining business elements have made much of links between officials and Chinese businessmen.

Nevertheless the government has been able to avoid putting into effect any serious campaign to eradicate corruption because the critics had little political muscle and the oil bonanza of the 1970s minimised the economic necessity to bring the state apparatus under tight control. The numerous committees of inquiry and anti-corruption programmes established by the government were uniformly ineffective.

Recent events, however, have given the question of corruption a degree of immediacy and potency. Much of the government's power and legitimacy has stemmed from its ability to generate development and distribute largesse as a consequence of the huge oil tax revenues. Since the drop in oil prices in 1982, and particularly since the more dramatic collapse in 1986, the capacity of the state to provide the investment necessary to keep economic growth buoyant and to provide a flow of patronage has been severely diminished.[14] Recession, unemployment and corporate failure now becomes a spectre for the New Order, with the potential to alienate much of the goodwill of its business, landowning and middle class constituencies. In this new environment of economic pressure on the New Order and with elections looming, attacks on its legitimacy—especially concerning corrup-

tion—easily move from the category of criticism to that of subversion.

The decline in oil prices has also led to increasing pressures to develop alternative export earnings and to use more effectively the declining pool of investment capital. These pressures, in turn, have resulted in calls for increased efficiency in the state apparatus which hit squarely at practices of corruption. For technocrats and many business leaders the autonomy of the politico-bureaucrats and their appropriation of public office has now become an obstacle to economic development.[15] Already the New Order has been forced to give way in several important areas. Pertamina, formerly the hub of the patronage network, has been undergoing a process of regularisation for a period of several years, the interests of the politicó-bureaucrats who formerly controlled it being subordinated to the need for broader economic survival for which an efficient oil industry is absolutely essential.[16] Similarly, moves to regularise the Customs Department promulgated in 1985[17] saw the interests of the politico-bureaucrats, who controlled that lucrative department, sacrificed to the need to combat the so-called "high cost economy" by reducing the cost of imports and exports.

Recent economic developments have, therefore, made corruption an explosive domestic issue for an increasingly vulnerable regime. Corruption threatens both the legitimacy of the government in a pre-election period and the very basis of rule by politico-bureaucrats.

In the international sphere also, recent events in the Philippines leading to the overthrow of President Marcos were a demonstration of how effective the Western liberal press could be in discrediting and damaging a regime. In this case corruption, along with the question of human rights, were the major focus of criticism. Although the case of the Philippines is quite different from that of Indonesia, notably by virtue of the former's close historical links with the US, Indonesia can ill afford damage to its international reputation at a time when it requires the full support of such bodies as the World Bank, the IMF and IGGI, (the Inter-Governmental Group on Indonesia which plays the central role in providing and rescheduling loans). To replace the Philippines, as the focus of attention for the Western liberal press as the prime example of a corrupt and authoritarian Third World regime, is just what Indonesia does not need.

In the light of these factors, the belief within military and nationalist circles in Indonesia that the Jenkins article is part of a deliberate and broader plan to subvert and turn world opinion against the Suharto government by "left wing" elements within Australia becomes comprehensible even if it remains somewhat paranoid—particularly when it insists that this is being done with the blessing of the Australian government. As *AB* noted, "It is apparent that the Australian Government protects and blesses the actions of its media and therefore it is not wrong if we suspect the government had prior knowledge before the spreading of the slander, hostility and subversion."[18] It is not, therefore, simply the form of the Jenkins article which offended Indonesian sensibilities but the content which touches upon questions

which the regime finds fundamentally threatening in both the domestic and international sphere.

Anti-Western Sentiments and the Indonesian Response

The Indonesian response to Australia is also conditioned by historical undercurrents of suspicion of Western motives and intentions as well as rejection of Western economic and political values. These originated in the colonial period but have been reinforced by subsequent Western economic and political interventions.

For some, anti-Western feeling has focused upon a suspicion of Western liberalism and a dislike for the competition and individualism inherent within it. Another major theme in post-Independence thinking has been a contempt for laissez-faire capitalism with its disregard for equity and social justice and its emphasis on ruthless market-place competition. A third strand of anti-Western sentiment has been directed against Western economic imperialism which is seen as pervading all economic relations between East and West and leading to the economic exploitation of the former.

These anti-Western attitudes have been integral to the ideological make-up of a wide diversity of groups across the political spectrum. For the Communist Party (*PKI*) anti-imperialism and anti-capitalism were the basis of their ideological response and political platform (ironically also drawn from the West). For their domestic opponents, the military and civilian politico-bureaucrats, anti-liberal, anti-laissez-faire sentiments were dominant within the corporatist, authoritarian state-led capitalist institutions and ideologies over which they presided.[19] Secular middle class elements, while drawing strongly on Western notions of rule of law and democratic government, were trenchantly critical of Western economic exploitation of Indonesia, a sentiment which was most forcefully expressed in the events leading up to the anti-Japanese riots in Jakarta in January 1974.[20]

Of these it is the corporatist, state capitalist perspective which has become dominant. Since 1958 the officials of the state, both military and civilian established their political and economic authority, first under Sukarno and then under Suharto, with political corporatism and state led capitalist industrialization as the pillars of their power. Today, the Suharto government and its ruling estate of politico-bureaucrats operates a political system in which there is a fusion of the public and private spheres and where state power is exercised by officials acting—in what they argue to be the national interest—to establish political order, internal security and economic development. Legitimate political participation is confined to the formal structures of the bureaucracy and the state sponsored functional groups representing various elements of society: labour, business, students, women, civil servants, farmers, etc. A state party (Golkar), and a state ideology, "Pancasila," binds all sectors of society to the common project as interpreted by the ruling estate.[21]

In this situation, criticism of the fundamental objectives of the New Order or of the behaviour of its leaders is interpreted as subversion. Political action outside

the corporatist structures and ideology has no legitimacy. The permitted parameters for debate and contention are narrow indeed. It took the New Order over a decade to impose these concepts on the domestic press after a stormy period in which numerous newspapers were banned, editors disciplined and firm ground rules laid down. The university campuses were similarly incorporated into the corporatist mould after a long period of internecine conflict.

It is only by appreciating the political interests and ideological perspectives of Indonesia's rulers that we can understand the passionate condemnation of Western liberalism by *AB* as a dog-eat-dog system in which the rights of individuals are upheld to the point where injustice, inequity and the rights of the community are sacrificed and where, it is alleged, the political order, harmony and purpose of the society as a whole are put at risk for the dubious privilege of freedom to oppose and criticise.

This cannot, however, be interpreted as a general Indonesian cultural response but rather is the specific response of the dominant political estate. In practical terms it means that foreign press criticism of the regime, a flow of information frustratingly outside its immediate control, is regarded as a subversive and intrusive threat to its political order. Ideologically, from the corporatist perspective, the Western press is regarded as irresponsible and self-seeking, with little concern for the social and political consequences of its actions. It is therefore not so much the case that Indonesia's political hierarchy doesn't understand the autonomy of the Western press within the Western political system, but that it regards it as both morally reprehensible and dangerous to the survival of the sort of political order over which it presides.

Parallel to the political philosophy of corporatism is the dominant attachment to state-led nationalist industrialization. A common objective of both the Sukarno and Suharto regimes has been the creation of an industrial economic base which provides national economic resilience, a term which connotes an independent self-sustaining capacity to industrialise. In practical terms this implies the creation of capital, consumer and intermediate goods industries; an integrated circuit of production with both backwards and forwards linkages.[22] Partly to ensure the fulfillment of broader national goals and partly because of the weakness of private domestic capital, the state continues to play a leading role. There is little faith that the common good will best be secured by the free operation of private interests in the marketplace.

It therefore follows that Western insistence that Indonesia allow market forces to prevail, to integrate freely into the world economy and to concentrate on areas of existing comparative advantage are seen in important circles as attempts to keep Indonesia tied to the production of commodities and low value added industrial goods. Further, it is seen as a tactic to fit Indonesia into the global strategy of Western and Japanese economic interests and to inhibit independent self-sustaining and self generating industrialization.[23]

Since the decline of oil prices, nationalist economic strategy and the power of those politico-bureaucrats who preside over it, notably the Minister for Industry, Hartato, the Chairman of the Capital Investment Board, Ginanjar Kartasasmita and the Minister for Research and Development, Habibie, have been placed under pressure by the World Bank and market oriented technocrats within Indonesia to make fundamental changes. A free market economy, including less state intervention and the removal of tariff protection, is the main demand.[24] A vigorous debate is under way. With declining state investment resources and the grandiose plans for major industrial and technology projects collapsing beneath them[25] the defenders of national state led industrialization are gradually being forced to give way.[26] Disappointment at the failure of the industrial nations to address the problems of developing South-East Asian nations at the recent Tokyo summit has further consolidated the resentment felt by Indonesia's besieged industrial planners.[27]

Anti-Australian Sentiment?

The existence of anti-Western sentiments provides a context but does not in itself explain why Indonesia reacted so strongly towards Australia following the *SMH* article. Other publications, particularly the *Asian Wall Street Journal* and the *Far Eastern Economic Review* had carried, without repercussions in the past, quite detailed accounts of the business interests of the Suharto family and its associates.[28] Following the *SMH* row, the *Washington Post* and the *New York Times* carried articles highly critical of Suharto without provoking a response, a point noted by the Australian government. Paul Handley's *Far Eastern Economic Review* piece on the business interests of Suharto's sons was even allowed into Indonesia without censorship weeks after the *SMH* article, a clear signal to Australia that it was the subject of special attention.

The response of the Indonesian government is partly the product of over a decade of irritation and anger at Australian criticism on such issues as Timor, Irian and human rights. Although some of this criticism emerged from the universities and the Labor Party, it was most effectively directed through the media. The Indonesian government has regarded the Australian press as conducting an anti-Indonesian vendetta and in particular, has seen Radio Australia as being hostile and instrusive to such a degree that comparisons have been made with the operations of the CIAs Radio Free Europe.[29]

The continuing irritation is fuelled, ironically by Australia's very interest in Indonesia. Whereas Indonesia is of little interest to other Western countries, it assumes a much higher profile in our press and universities partly because of its proximity and partly because of a growing history of contentious encounters. By definition, therefore, it comes in for more critical scrutiny. By comparison, Indonesia's relations with North America, Europe and Japan are unencumbered by such a high degree of interaction and interest and consequently there is far less critical scrutiny and controversy. Not only is Australia the major external irritant

but, as Lee Kuan Yew pointed out,[30] it is vulnerable to counter measures in a way the Japanese and Americans are not—simply because it is less politically and economically powerful or important to the region. Our relative economic unimportance is clearly illustrated in the level of Australian investment in, and trade with, Indonesia. From June 1967 to March 1984, Australian investment was US$280.7 million (approved) out of a total of US$12,017.3 million or 2.3 per cent of the total.[31] Of total investment in Indonesia, we fall behind not only the giants of Japan and USA but also Hong Kong, Belgium, Canada, Holland, West Germany, the United Kingdom, Switzerland and the Philippines.[32] Australian exports to Indonesia as a percentage of total Indonesian imports reached a peak of 3.5 per cent in 1980 and had declined to 2.6 per cent by 1984.[33] As a creditor we are also insignificant. Out of a total of US$4,142 million in Indonesian bilateral loan commitments in 1983, none were to Australia. Once again, it was Japan and USA who dominated but Australia lagged far behind the record of countries like France, Denmark, Canada, Holland, the United Kingdom, Switzerland, Sweden, Spain, Germany and Austria.[34]

At another level the relationship exhibits a pronounced lack of symmetry, which is recognised by both sides. Australian policy is based upon the assumption that Indonesia is more important to Australia than Australia is to Indonesia and, therefore, the burden of making the relationship work is deemed to fall upon us. On the other hand, important elements in the Indonesian government clearly believe that Australia is of such limited importance that maintaining the relationship is not worth a great deal of effort. Certainly few see a "special relationship."[35]

Such asymmetry gives Indonesia the advantage. It can apply pressure more easily because it is less concerned with the consequences, whilst on the other hand Australian anxiety to preserve a close relationship has rendered it susceptible to pressure. Australian diplomats in Jakarta spend much of their time soothing the ruffled feathers of their Indonesian counterparts. Publicly they have been forced into a position where they persistently take the line that the blame for deteriorating relations lies primarily with their own countrymen and women in the Australian press and political parties.[36] It is a stance that whilst useful to Indonesians, is regarded as fairly contemptible by the more nationalistic among them. There is, in my opinion, no doubt that a psychological advantage has been conceded by these diplomatic tactics.

Australia's very desire to be accepted in the region has also proven to be counter-productive. Australia is the only Western, white nation that, quite apart from wishing to participate in growing trade and investment in the region, has indicated that it wants in some vague way to become part of the regional community: to play an integral role in the region. The very suggestion of this has activated suspicions, resentments and apprehensions. Paradoxically, it has highlighted for powerful nationalist elements in Indonesia the differences between Australia and its Asian neighbours, resulting in fairly xenophobic and racist responses which do not

play a major role in relationships between Indonesia and other Western industrial nations. *AB*, for example described Australia as a rich, white race, whose people are arrogant and superior and believe they have the right to impose their views on the coloured South-East Asians amongst whom they live. Australia, *AB* continues, seeks to manage Indonesia through aid policies on the one hand and, on the other, by arming itself against an alleged Indonesian threat and attempting to politically isolate Indonesia from its South-East Asian and Pacific neighbours through negative media reporting. Racial and cultural differences are stressed and attention drawn to the effect of Australia's tariff barriers on the manufactured exports of its Asian neighbours.[37] It is also in this context that several Indonesian political leaders and commentators have made condescending references to Australia as a young country without the long cultural heritage of its Asian neighbours.[38]

Finally the *SMH* furore coincided with the release of the Dibb Report which signalled a change in Australian defence strategy, sections of which the Indonesian military found offensive.

Domestic Indonesian Politics and the Indonesian Response

Just as the issue of Indonesia often constitutes a battleground for domestic political conflict in Australia, the Indonesian response cannot be considered in isolation from domestic political relationships in that country. Given that the dramatic nature of the Indonesian response elevated a one-off story in the *SMH* to a headline issue in the *Washington Post*, the *New York Times* and a major concern of reporters during the Bali visit of President Reagan, one can only conclude that those who engineered the response were either remarkably naive or remarkably calculating. For those in Jakarta who favour the latter thesis, the intervention of *AB* to keep the story bubbling after it ceased to be of general interest to other papers has been very curious. The release of a secret Bakin (Indonesian Intelligence) document indicated that retaliation against Australia was planned and not spontaneous.[39] It was evidently intended to inflame rather than calm the situation. One prominent interpretation among Jakarta observers is that General Murdani is attempting to bolster his political position by becoming identified with an extremely anti-Western, anti-Australian stance. Others stress more sinister forces at work, aiming at nothing less than the destabilisation of the regime.

Whether or not there is a deliberate attempt to manipulate the *SMH* affair to destabilise Suharto within Indonesia by drawing attention to the question of his business interests at such a sensitive and difficult time for the government is at the moment a matter of conjecture although legitimate grounds for at least asking this question are there. The important point is that the continuing high profile of the article and its contents since its publication has been generated from within Indonesia to the continuing international and domestic embarrassment of Suharto.

Conclusions

In exposing the weaknesses of our policy and its theoretical and ideological underpinning as well as bringing certain Indonesian responses into the open, the events which followed the *SMH* article may be in the long run the best thing that has happened to Australian/Indonesian relations. At the very least the following reassessments in Australian thinking about Indonesia and the relationship should be made.

We will not understand the Indonesian response to the *SMH* article or frame intelligent policies towards our neighbour unless we adopt a much more sophisticated and complex mode of analysis of the nature of Indonesian politics and society. Cultural explanations obscure many of the concrete political interests which lie at the heart of Indonesian political behaviour and the response of Indonesia to the *SMH*—in particular the interests of the military and civil estate of politico-bureaucrats who dominate the state apparatus. What is explained as "culture" is often, in reality, the interests and ideology of this group. Culture also obscures the multiplicity of political interests and ideologies at work in Indonesia and the long traditions of resistance and democracy which exist there. Focus on culture also leads to a neglect of the concrete economic environment which is so important in conditioning political responses. Most importantly, in the mid-1980s, cultural analysis does not allow consideration of the stresses caused by the collapse of oil prices.

As far as drawing lessons for policy are concerned, cultural approaches lead to the inevitable conclusion that problems are caused by cultural insensitivity on Australia's part and can be rectified by a greater appreciation of Indonesian culture. But what does this mean in real terms? Simply appreciating the fact that critical scrutiny is not welcomed by the Indonesian government will achieve nothing if it does not result in the ending of such critical scrutiny. Such a path would lead to a collision course with our own political, media and educational traditions and institutions. Apart from the fact that such action is patently out of the question, there is no guarantee that an uncritical approach would pay dividends. It is ironical that the most virulently anti-Australian stance has, for some years now been taken by precisely those elements (General Murdani, CSIS and *Bakin*) with whom our Embassy in Jakarta has attempted to cultivate the closest relations and apply most assiduously its policies of cultural sensitivity.[40]

We should recognise the tendentious nature of the argument that Australia's long-term security interests are linked to the continued existence of the present Indonesian government. Not only is the spectre of Muslim fundamentalism a proposition which is wholly unsubstantiated and unlikely but, it could easily be argued to the contrary, the degree of administrative, ideological, political and economic dominance achieved by the present Jakarta government makes it a regime of enormous power and, hence, a much more formidable potential threat to

Australia. As it stands, however, there is no case one way or the other for linking our security interests in the region to the desirability of supporting any particular government or style of rule in Indonesia.

Our efforts to constitute a "special relationship" with Indonesia and to be accepted as having a legitimate, integral role in South-East Asian regional affairs has been counter productive in that it generates apprehension and resentment among South-East Asian countries. A withdrawal from this position does not preclude close economic, or even political, ties but it is increasingly clear that these must be achieved on the basis of our status as an independent, autonomous nation of the Asian Pacific region. Judged by the experience of other Western nations such a position would achieve a degree of distance necessary to reduce the anxieties now being produced by our obsession with being part of the region.

It should now be clear that good relations between nations are built upon concrete mutual interest; strategic, political and economic. Special relationships cannot be conjured up where there is no real economic or political substance and particularly where only one participant is interested. There is little prospect in the short to medium term of achieving such mutual concrete interests. In the meantime it would seem sensible to replace our obsessiveness and anxiety with a calm, friendly and low profile stance, directing the bulk of our energies towards the development of trade, investment and the provision of educational services for the region.

It should also now be clear that a considerable amount of friction and conflict is the inevitable consequence of the interaction of two political systems with such diverse structures and ideologies. Simply understanding the Indonesians is not by itself going to achieve anything. It may indeed worsen things. The real implications of such calls for understanding, if such understanding is to be translated into effective use, involves concrete changes to accommodate Indonesian sensibilities, notably censorship. Whilst individual publishers may weigh the pros and cons of publishing specific articles, the Australian government cannot take any action to censor material on Indonesia. There is little chance of reforming the superficial, sensational and uninformed nature of the bulk of the Australian media and, in any case, this segment has rarely concerned itself with Indonesia. What has concerned Indonesia is not, in fact, sensational reporting but critical scrutiny by the more reputable sections of the Australian media. We have little alternative but to accept that the Indonesian government, in its present form, will continue to be irritated and outraged from time to time.

Perhaps the most important factor determining our position within the region relates to the degree of our economic and political power and influence. To this extent the successful restructuring of our national economy will, of itself, have a far greater effect on good relations with Indonesia than all the contrived efforts to be friendly, understanding, and non-critical and to convince the Indonesians that we have a "special relationship." It is only as a large investor, trader and creditor that

we would be able to forge "special relationships" of substance. In this case a little more concern for our own situation and a little less anxiety about how others perceive us would pay long term dividends and, I believe, be welcomed by the Indonesians.

Notes

1. *Sydney Morning Herald*, 10 April 1986.
2. *Financial Review*, 14, 15 April 1986.
3. *Financial Review*, 22 April 1986. *The Age*, 22 April 1986.
4. *Angkatan Bersenjata*, 21, 22, 28, 29 April, 2, 5 June, 1986.
5. The Australian press had long been critical of Foreign Affairs. An editorial in the *Financial Review*, 22 June 1984 states: "...the Foreign Affairs establishment seems to have given the Indonesians the impression that our diplomats are as hostile to a free media as the most authoritarian members of the Indonesian Government." After April 1986 editorials generally were taking a tougher line with Indonesia, suggesting that apologies were inappropriate, and developing a critical line on Indonesia's response and general attitudes to Australia as well as suggesting that the "Special relationship" with Indonesia might not have the substance long claimed by Foreign Affairs. All in all the credibility of the architects of Australia's Indonesia policy has suffered from Indonesia's response to the incident. For a sample of editorial criticism see: *The Age*, 6 May 1986, *Australian* 4 June 1986, and 14 April 1986. For an indication of the extent to which the influence of the Indonesia Lobby may be in eclipse see statements by Prime Minister Hawke and Foreign Minister Hayden foreshadowing a more distant stance. See: *Financial Review*, 5 May 1986; *Far Eastern Economic Review* (hereafter *FEER*), 22 May 1986; *Sunday Telegraph*, 27 April 1986; *Australian*, 2 May 1986.
6. The Lobby is generally regarded to centre around former Ambassadors to Indonesia, G.A.. Jockel, R.W. Furlonger, K.C.O. Shann, T.K. Critchley, R. Dalrymple, R. Woolcott, the present Ambassador W. Morrison, and other senior Foreign Affairs officials, notably H.D. Anderson, J. Holloway and G. Forrester. Academics Heinz Arndt, Jamie Mackie and Peter McCawley are regarded by some as being part of the Lobby. Liberal Party leader John Howard, the National party's Ian Sinclair and former Labor Prime Minister Whitlam are strongly supportive of the Lobby's position.
7. For an overview of the general Lobby position see: H.D. Anderson, "Effort Needed to Make us more than merely geographic neighbours," *Canberra Times*, 27 January 1983; T.K. Critchley, "Australia Salah Menafsirkan Sejarah?" *Eksekutif*, 19 September 1985; J.A.C. Mackie,"How Indonesians see Australia: unsure, erratic and arrogant," *Bulletin*, 24 July 1984, pp. 130-4; Peter McCawley, "Australia's Misconceptions of ASEAN" in Paul Dibb (ed.) *Australia's External Relations in the 1980s*, (Croom Helm, Canberra, 1983), pp. 85-95; John Holloway, "Australia-Indonesia: Managing the Relationship," *Australian Foreign Affairs Review*, Vol. 56, No. 6, June 1985, pp. 512-5. See also reports of statements by Morrison, *Bulletin*, 28 May 1985; Dalrymple, *Australian*, 27 March 1985; Woolcott, *Australian*, 17 March 1986. Also interesting is the letter sent by Shann and Furlonger, Jockel, Arndt and Mackie to the *Age*, 8 May 1986.
8. An academic formulation of the assumptions underlying this crude psycho-cultural approach is perhaps best illustrated in the thesis of the American academic Karl D. Jackson in his "Political Implications of Structure & Culture in Indonesia" in Karl D. Jackson and Lucian W. Pye (eds) *Political Power and Communications in Indonesia*, (University of California Press, Berkeley, 1978). Cultural relativism permeates the thinking of the Indonesia Lobby and informs the response of the Indonesian government and sections of the Indonesian media to external criticism on a variety of topics, including human rights, authoritarian rule and corruption. Jusuf Wanandi, a leading figure in the right-wing think-tank, CSIS (Centre for Strategic and International Studies) developed the thesis that human rights are conceived differently within Indonesian and Western cultures *Far Eastern Economic Review*, 2 December 1977. Foreign Affairs' Anderson claimed

that "Our respective attitudes to political authority and the role of the individual in society show marked differences in emphasis," *Canberra Times* 27 January 1983. See also the statements of Ambassador Marpaung, *West Australian*, 19 October 1984; *Financial Review*, 4 July 1984. See also statements in Sinar Harapan, 15 April 1986, 17 April 1986, *Merdeka*, 21 April 1986.

9. For overviews of the impact of orientalism on the analysis of the Third World and its history see: Patrick Sullivan, "A Critical Appraisal of Historians of Malaysia: the theory of society implicit in their work," in R. Higgott and R. Robison (eds) *Southeast Asia: essays in the Political Economy of Structural Change*, (Routledge and Kegan Paul, London, 1985) and in Ian Turner, "*Marx and the End of Orientalism*, (Allen & Unwin, London, 1978).
10. Typical of the emphasis on insult to the Head of State as a cultural offence is the response of the Minister for Information, Harmoko, reported in *Sinar Harapan*, 22 April 1986; *Suara Karya*, 22 April 1986, and the comments of the Armed Forces Fraction in the Indonesian Parliament, *Sinar Harapan*, 16 April 1986 and Suara Karya, 17 April 1986. Murdani's comments that criticism of Suharto represented an insult to Indonesia were reported in *Kompas*, 21 April 1986. *Angkatan Bersenjata*, 5 June 1986 contained a lecture on the cultural importance of respect for superiors and leaders. The notion that personal criticism is culturally offensive to Indonesians was also seized upon by members of the Indonesia Lobby in their explanations.
11. *Merdeka*, 21 January 1974.
12. The new government made much of alleged corrupt relationships between business and government figures of the old order. Highly publicised trials of the Mayor of Jakarta, Jusuf Muda Dalam and businessmen Mardanus, Markam and Aslam resulted in imprisonment and confiscations of property, *Warta Berita*, 7 January 1967, *Kompas*, 6 February 1967, *Sinar Harapan*, 16 February 1967.
13. White Book of the 1978 Students' Struggle, translated in *Indonesia*, No. 25, 1978; pp. 151-66; Heri Achmadi, *Breaking the chains of Oppression of the Indonesian People: Defense Statement at His Trial on Charges of Insulting the Head of State*. (Translation Series 59, Cornell Modern Indonesia Project, Ithaca 1981); H.R. Dharsono, "Demanding the Fulfillment of the Promises of the New Order" translated in *Inside Indonesia*, 7 May 1986: pp. 6-10.
14. R. Robison, *Indonesia: the Rise of Capital*, (Allen & Unwin, Sydney, 1986) Chapter 11.
15. See the statements by Professor Sumitro Djojohadikusumo in *Kompas* 23 & 24 August 1985 on the problems of the high cost economy.
16. *Tempo*, 23 June 1984; Susumu Awanohara, "Suharto's Axe Falls, *FEER*, 5 July 1984; and "Another New Broom," *FEER*, 19 July 1984; Manggi Habir, 'Open to Change' FEER, 28 March 1985.
17. Sjahrir, "Privatisasi Menuju Efisiensi?" *Prisma* No. (7) 1985..
18. *Angkatan Bersenjata*, 3 June 1986. Translation from *Sydney Morning Herald*, 4 June 1986.
19. The most fully developed expression of Indonesian corporatism and anti-laissez-faire, anti-liberal sentiments inherent in it are in the writings of the think-tank associated with the late General Ali Moertopo, the Centre for Strategic and International Studies (CSIS). See: Ali Moertopo, *The Acceleration and Modernization of 25 Years Development* (CSIS, Jakarta, 1973); Ali Moertopo, *Strategi Politik Nasional*, (CSIS, Jakarta, 1974).
20. Robison, *op. cit.* Chapter 5.
21. J.M. Boileau, *Golkar: Functional Group Politics in Indonesia*, (CSIS, Jakarta, 1983).
22. This approach was most fully developed by former Industry Minister, Soehoed, in the late 1970s. See his, "Commodities and viable Economic sectors—A Possible Basis for Development Planning" *Indonesian Quarterly* (IQ) Vol. V, No. 1, 1977, "Japan and the Development of the Indonesian Manufacturing Sector" IQ Vol. IX, No. 4, 1981, and "Industrial Development During Repelita III, IQ, Vol XI, No. 4, 1982.
23. Hartato, "Menumbukan Pohon Industri dan Keterkaitnya," *Prisma*, No. 5; See also statements of the Chairman of the Capital Investment Board, Ginanjar Kartasasmita, in *Kompas*, 24 August 1985.
24. International Bank for Reconstruction and Development, (IBRD) *Indonesia: Policies for Growth and Employment*, April, 1985.
25. Oil and LNG export earnings have dropped from a high of US$18.672 billion in 1981/82 (81.9% of total export earnings) to an estimated US$13.115 billion in 1985/86 (around 65% of total foreign earnings). Oil and LNG taxes moved from Rp. 8,600 billion in 1981/82 (70% of state

revenues) to Rp. 11,160 billion in 1985/86 (around 60% of total revenues) to drop to Rp. 9,700 billion in 1986/87, a fall of 12.7% over the previous year. The state development budget, the main source of domestic investment has consequently been placed under pressure, causing the cancellation and postponement of several major industrial projects.

26. Robison, *op. cit.* Chapter 11.
27. Michael Byrnes, *Financial Review*, 12 May 1986.
28. For example see: J.P. Manguno and S.K. Witcher, "Suharto Relatives, Officials Gain Control of Indonesian Flour Trade," *Asian Wall St. Journal, (AWSJ)* 23 November 1980, J.P. Mangano, "Suharto Denies Taking Payoffs on Arms Deals" *FEER*, 30 July 1980, P. Handley, "Coming to the Defense of the Family Business," *FEER*, 22 May 1986.
29. See particularly General Benny Murdani's statement in *Tempo*, 21 July 1984, p. 13. A comparison between Radio Australia and Radio Free Europe was made in *Kompas*, 6 May 1986.
30. Lee Kuan Yew, Speech to the National Press Club, *Canberra*, 16 April 1986.
31. H. Herderschee and Helen Hughes, "Aid, Investment and Trade within the Australian, Papua New Guinean and Indonesian Triangle," Paper prepared for a conference on *Inside the Triangle: Australia, Indonesia and Papua New Guinea*, (Australian Institute for International Affairs, Melbourne 14-16 March 1986).
32. Dorodjatun Kuntjoro-Jakti, "Tantangan Tahun 1985/86, Memelihara Kepercayaan Dunia Usaha," *Prisma*, No. 1, 1985, p. 26.
33. IBRD Report, *op. cit.*, Annex II, Table 3.4, p. 195.
34. *Ibid.*, Annex II, Table 4.5, p. 203.
35. Michael Byrnes, "Indonesia Made Reprisals as they "don't need us'" *Financial Review*, May 26, 1986; *Angkatan Bersenjata*, 28 April 1986.
36. Shann talks of "...reckless and provocative comments about Indonesia in the Australian news media..." which undermine attempts to establish good relations. *Age*, 8 May 1986. Shann also expanded upon the comments made in his letter, claiming that Australia was spitting in the face of Indonesia. *Age*, 8 May 1986. Two years earlier, Shann had claimed that Radio Australia had seriously damaged Australia's relations with Indonesia, through the broadcast of anti-Indonesian views of the biased journalists. *Australian*, 7 May 1986. Critchley, in an article published in the Indonesian journal *Eksekutif*, (September 1985) attributed the strain in relations to Australian misunderstanding of Indonesian history, particularly *Konfrontasi*, West Irian and East Timor. Woolcott argued that relations could only be improved if there was a transformation in Australian attitudes towards Indonesia. He claimed that sinister attitudes had been spread by anti-Indonesian lobby stirring up dark fears. (Address to Australian Institute for International Affairs, Melbourne, 15 March 1986). Dalrymple talked of media and political lobbies in Australia which were, "...often strident and uninformed." *Australian*, 27 March 1985. Statements such as these are widely reported in the Indonesian press.
37. *Angkatan Bersenjata*, (see Footnote 14). The reaction of several other newspapers also placed considerable stress on Australia as a country outside the cultural and economic identity of the region. See: *Sinar Harapan*, 15 & 17 April 1986, *Merdeka*, 21 April 1986.
38. See the comments of Ambassador Marpaung in the *Financial Review*, 4 July 1984.
39. *Financial Review*, 26 May 1986.
40. Apart from the obvious example of General Murdani, the Think-Tank, CSIS (Centre for Strategic & International Studies) has had extremely close links with the Australian Embassy for well over a decade, yet it continues to push the hard line that the problems of Australian-Indonesian relations emanate from within Australia. CSIS and the military are the most virulent Indonesian critics of Australia; Jusuf Wanandi, "Regional Issues: Australia, Indonesia, PNG and the South Pacific," IQ, Vol. 12, No. 4, 1984; Jusuf Wanandi, "Australia-Indonesia Relations" *Canberra Times*, 24 and 25 January 1983.

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POWER AND ECONOMY IN SUHARTO'S INDONESIA

by Richard Robison

This selection of articles spans a twelve-year period in the development of a new and distinct approach to the question of political and economic power in Indonesia. Confronting both the conservative and dependency orthodoxies, the central theme is that of a gradual maturing of capitalism, in which a capitalist class (indigenous, Chinese and foreign) grows in strength and influence in both the economic and political arenas. This process is set in the context of a changing international economy and the studies bring to bear the latest theoretical perspectives on class, state and power.

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